

Informing the audit risk assessment for Birmingham City Council

Year ended

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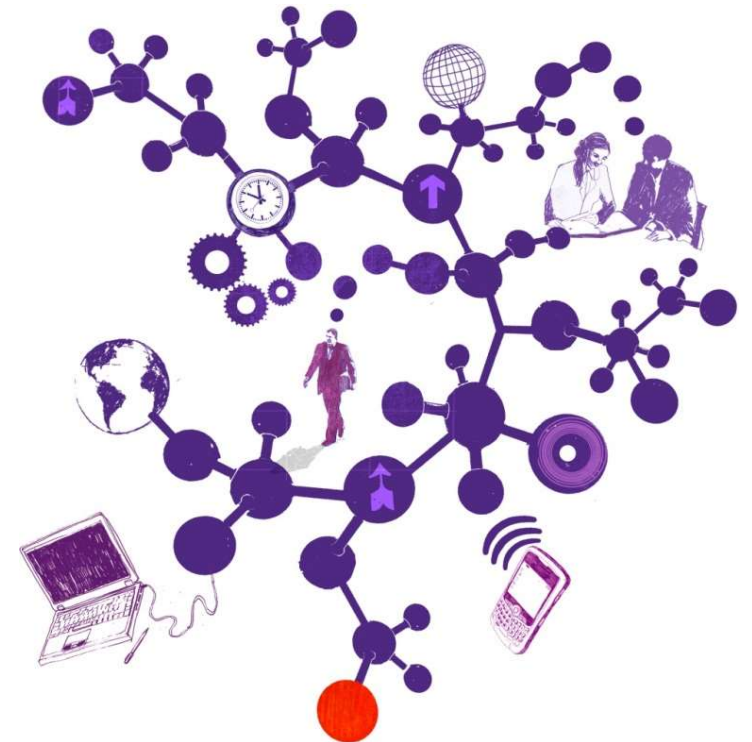
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- Related parties
- Estimates
- Group accounts

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas. There is also a dedicated counter fraud team which undertakes reactive and proactive investigations as well as tackling the high risk areas of Social Housing and Council Tax fraud..</p> <p>The risk of material misstatement of the accounts due to undetected fraud is low.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has an Anti-Fraud and Corruption Policy and Fraud Response Plan which set out the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit.</p> <p>As well as participating in the bi-annual National Fraud Initiative, regular data matching exercises are undertaken through Internal Audit's Data Warehouse facilities.</p> <p>Internal Audit have sought to develop their data analytics capability. A project working with consultants to provide continuous fraud and error monitoring across the Council's main financial systems, included a provision for the transfer of knowledge to allow Internal Audit staff to run interrogation reports to highlight exceptions in data that may be an indication of fraud or error.</p> <p>Internal Audit participate in the annual surveys of fraud in local government undertaken by both CIPFA and TEICCAF and review the results of these surveys to identify potentially new fraud risks. In response to recent findings of an increase in No Recourse to Public Funds fraud , a proactive fraud exercise has been initiated to determine whether the Council has been the victim of such fraud.</p> <p>Internal Audit staff participate in various forums to exchange ideas around fraud related issues, as well as working more widely in co-operation with law enforcement agencies to exchange information for the purpose of preventing and detecting crime..</p> <p>Fraud Spotlight, a bi-annual fraud bulletin dealing with general fraud issues is circulated to staff and members. In addition ad-hoc fraud alerts are issued to schools.</p> <p>The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter.</p> <p>e-Learning training material is available specifically targeted at managers. In addition bespoke training can be provided on specific fraud related issues.</p> <p>Procedures are in place for reporting fraud; this includes an on-line referral form, a fraud hotline and a revamped whistle blowing process.</p> <p>All cases of fraud should be reported to Internal Audit. All fraud referral s are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations.</p>

Fraud risk assessment

Question	Management response
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Housing Benefits remain a high risk area however responsibility for investigating fraud in this area transferred to the Department for Work & Pensions (DWP) as part of the Government's introduction of a Single Fraud Investigation Service on 1st February 2015. The Council no longer has any authority or legal power to investigate in this area. Nevertheless, Internal Audit are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the DWP and Benefits Service accordingly. An issue has come to light where it has transpired that changes made to Council Tax liabilities do not automatically update Housing Benefit records, and as a consequence a number of benefit overpayments have occurred.</p> <p>Social housing fraud has been identified as a high risk area and significant counter-fraud resources have been committed to identify illegal sub-lets and non-residency of properties within both its own housing stock and that of Registered Provider partners. Internal Audit have worked with Housing to secure the gateway to obtaining a tenancy through increased use of the data warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach is being pursued with applications made under the Right to Buy Scheme. Internal Audit have worked with Housing to provide a network of 'Fraud Champions' within the service area, to provide assistance to investigations and promote the anti-fraud message. An e-learning package is being developed specifically to teach Housing staff about the risk of social housing fraud, and various campaigns have taken place to raise awareness of the problem more generally.</p> <p>Changes in Council Tax legislation have increased the Council's exposure to the risk posed by fraud in respect of Council Tax Support (which replaces Council Tax Benefit), single person discounts and student exemptions. Counter fraud resources have been committed to identify and investigate Council Tax related fraud, and the Council has taken part in NFI data matching exercises to identify fraudulent claims for single person discounts and Council Tax Support. In addition Internal Audit has used its Data Warehouse to match Council Tax data with other records to identify potential fraud.</p> <p>Direct Payments for social care have also been identified as a high risk area. Internal Audit undertake two monthly sample checking and have also recently undertaken a proactive fraud exercise to identify potentially fraudulent claims. This was followed up with fraud awareness training for staff administering Direct Payments.</p> <p>There has previously been an increase in the number of potentially fraudulent applications for business improvement grants, so Internal Audit have delivered fraud awareness training to staff in this area.</p>

Fraud risk assessment

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Birmingham Audit as part of delivering the internal audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. A system of continuous auditing across the main financial systems is also being introduced to help detect fraud.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts— these staff have a reporting line to the Director of Finance via their Finance Assistant Director. Strategic Directors sign off the forecasts at a directorate level.</p> <p>Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud and updates on other initiatives e.g. National Fraud Initiative or Protecting the Public Purse.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>In relation to staff there is a Code of Conduct which was updated and issued to staff when contracts were revised. The Code is also available to managers and staff on the People Solutions database. There are guidelines for dealing with employees found to have committed benefit or blue badge fraud, social housing fraud and council tax fraud. Your Weekly News and Fraud Spotlight also provide opportunity to remind staff of the Council's expectations.</p> <p>In relation to contractors, during 2013 the Council's Business Charter for Social Responsibility was published. One of the principles of the charter is ethical procurement, more specifically in relation to fraud, within the standard contract terms and conditions there is a requirement for contractors to protect the Council against fraud.</p>

Fraud risk assessment

Question	Management response
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. BCC has recently revised its whistle blowing policy to include schools, and also introduced a dedicated Whistleblowing Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on Inline, includes an e mail address and telephone numbers for fraud reporting. An on-line referral form is in place on Inline and birmingham.gov.uk . In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.
Are you aware of any instances of actual, suspected or alleged, fraud, either within or impacting on the Council as a whole or specific departments since 1 April 2016?	No significant frauds have been identified in the year to date. Since April 2016, 87 referrals of potential fraud and error had been made to the Birmingham Audit Corporate Fraud Team. Each referral is risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of the Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition 1,437 cases have been raised in relation to Application Fraud (Social Housing and Council Tax), resulting in 43 properties being returned for re-letting, 182 applications being cancelled and 4 Right to Buy applications being stopped. Changes in the amount of Council Tax debit of nearly £300,000 have been identified along with Housing Benefit overpayments of just over £500,000.

Laws and regulations

Issue
<p>Matters in relation to laws and regulations</p> <p>ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.</p> <p>Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.</p> <p>As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.</p> <p>Risk assessment questions have been set out below together with responses from management.</p>

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> • Report on contraventions or likely contraventions of any enactment or rule of law. • Report on any maladministration or injustice where Ombudsman has carried out an investigation. • Receive copies of whistleblowing allegations of misconduct. • Investigate and report on any misconduct in compliance with Regulations. • Advice on vires issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members. <p>The Monitoring Officer has access to all Council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific legal issues, the Monitoring Officer would get involved at an early stage, including vetting reports for legal issues.</p> <p>Senior Lawyers in Legal Services undertake corporate governance review of reports to Cabinet and Cabinet Members</p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>Assurance is provided through the work of governance meetings, the Governance Board chaired by the Strategic Director of Finance & Legal and the Corporate Governance Group chaired by the Monitoring Officer/Chief Finance Officer.</p>
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>Reports regarding significant financial liability arising from legal challenges are made periodically, for example; Equal Pay.</p> <p>Contingent liabilities are included in the Statement of Accounts.</p>

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016, or earlier with an on-going impact on the 2016/17 financial statements?	The Council has been found to be in default of process and/or legal requirements through various legal challenges through Judicial Reviews, Health & Safety claims, Information Commissioner and Ombudsman findings.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Claims involving Highest Risk to Council are regularly monitored and reported to the Governance Board.
Is there any actual or potential litigation or claims that would affect the financial statements?	Those disclosed under provisions and contingent liabilities.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	As above – Ombudsman, Information Commissioner and Health & Safety Executive

Going Concern

Issue

Matters in relation to laws and regulations

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern assumption provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<p>The Financial Plan 2017+ includes an updated medium- and long-term financial plan, and this is reviewed regularly, with changes incorporated into briefings to Members of EMT as part of the on-going business planning process.</p> <p>This includes the financial implications of Equal Pay settlements, with the availability of resources informing the Council's settlement strategy.</p> <p>The Business Plan & Budget also includes projections of reserve balances and Prudential Indicators, together with the Treasury Management Policy & Strategy which sets out the framework for the management of loans, investments and cash balances.</p> <p>The Council has rigorous financial monitoring arrangements, including frequent reports to Cabinet, and this is supported by the tracking of the implementation of savings initiatives, including scrutiny by the Deputy Leader through Star Chamber meetings.</p> <p>The Council has adopted a medium-term approach to the development of its financial plans, including the savings programme, and has a transition funding strategy in place to take account of phased implementation. This will have regard to the resources that will be available then, service priorities and their cost, and the associated organisational change that will be necessary.</p>
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	<p>The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. There is continuing maintenance of a funding strategy involving the realisation of asset sales. Provision is included in the accounts for the expected level of payments in respect of outstanding claims.</p> <p>Government announcements regarding future grant levels are monitored closely and projections are updated regularly. The Council is part of the West Midlands 100% Business Rates Pilot, which will enable it to keep business rates growth in the City.</p>

Going Concern Considerations

Question	Management response
Are arrangements in place to report the going concern assessment to the Audit Committee?	There are arrangements to report the impact of Equal Pay claims to the Audit Committee. The Statement of Accounts which contains specific disclosures around going concern is approved by Audit Committee.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Financial Plan 2017+ includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Plan 2017+ explicitly took into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium- and long-term plans.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	<p>There have been issues raised by external and internal audit relating to matters of internal control. Significant work has been undertaken in respect of the production of the accounts. Neither of these issues cast doubt on the assumptions made in the Financial Plan 2017+.</p> <p>Audit Committee reviewed the Council's response to the Section 24 statutory recommendation issued by the external auditor. (Please see comments below regarding the management of the savings programme.)</p>

Going Concern Considerations

Question	Management response
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>The Council's arrangements for its management of cashflows is set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator.</p> <p>The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. Provision is included in the accounts for the expected level of payments in respect of outstanding claims.</p> <p>The Council's arrangements for budget monitoring, including the implementation of the savings programme, ensure that close attention is paid to the need to deliver services within budgets available. This includes frequent reporting to Cabinet.</p> <p>Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.</p> <p>The Council has put in place enhanced management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements (involving the introduction of a Programme Management Office, a clearer focus on implementation planning and oversight by a Budget Board), contingency planning and the maintenance of reserve balances to mitigate any residual risk.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Workforce planning is an integrated part of business planning. Voluntary and compulsory redundancies are forecast. Directorate Moderation Panels maintain an overview of recruitment activity, vacancies and applications for redundancy. The Council has a My Appraisal process which reflects the Council's objectives at an individual level.</p>

Related Parties

Issue

Matters in relation to Related Parties

For local government bodies the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS24: related party disclosures. The Code identifies the following as related parties:

- Subsidiaries;
- Associates;
- Joint ventures
- An entity that has an interest in the authority that gives it significant influence;
- Key management personnel and close family members; and
- Pension fund for the benefit of employees

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We also carry out testing to ensure the related party transaction disclosures in the financial statements are complete and accurate.

Related Parties Assessment

Question	Management response
Who are the Council's related parties?	<p>In addition to the companies consolidated in the Council's Group Accounts, the Council has had transactions of over £200,000 with the following companies in which it has an interest (as at 28 February 2017):</p> <p>Birmingham & Solihull Mental Health Trust, Birmingham & Solihull Women's Aid Birmingham Community Healthcare NHS Trust, Birmingham Hippodrome Theatre Trust Ltd Birmingham Lend Lease Partnership, Birmingham YMCA, Bloomsbury EMB, Centro Bournville College, Chinnbrook Family & Community Project, City of Birmingham Symphony Orchestra, Business District Ltd, Dance Exchange Ltd (The), Drum/ Newtown Cultural Project (The), Focus Birmingham, Four Towers TMO, Leigh Trust Greater Bham & West Midlands Brussels Office, Lench's Trust, Marketing Birmingham, Midlands Arts Centre, Millennium Point Property Ltd, Optima Community Association Paradise Circus General Ltd, Pertemps, Roman Way Estate CIC, Retail Birmingham Limited, S4E Ltd T/A Services for Education, Saint Basils, Sandwell and West Birmingham CCG, South & City College (Birmingham), Southside Business District Ltd, Thompsons Solicitors, St. Paul's Community Development Trust, Stonham (Part of Home Group), West Side BID, Sutton Coldfield Town Centre BID, University Hospital Birmingham Foundation Trust, Veolia Environmental Services Birmingham Ltd, Witton Lodge Community Association Ltd, Yardley Great Trust, Millennium Point Trust, Mutt Motorcycles Ltd, Obillex Ltd, Pure Mobile. PETPS (Birmingham) Ltd, Warwickshire County Cricket Club.</p> <p>The 2016/17 Statement of Accounts will contain details of the nature of the relationships.</p>
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	<p>Members and senior officers are required to complete a register of interest.</p> <p>Members are also required to declare any interests relating to matters to be discussed in each meeting. The Members' declarations are published on the Council's website.</p>

Accounting Estimates

Issue

Matters in relation to Accounting Estimates

Local authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed on the following pages.

The audit procedure we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable; and
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Revenue Outturn for the year	To accelerate the closure of accounts, the revenue outturn will be based on the year end forecasts that have been determined as a result of monitoring undertaken during the year.	Management review of monitoring throughout the year comparing budget to forecast outturn and linked to savings trackers.	Forecast outturn will be determined by budget holders in liaison with finance support and reviewed by senior management.	Uncertainty should be low as the majority of expenditure/income will be recorded in financial ledgers and the uncertainty will relate to the activity in the final month of the year. The high use of purchase and sales orders will minimise the level of accruals required.	No
Heritage Asset Valuations. (Museum and Art Gallery Collections, Archives).	Insurance valuations have been used for Museum and Art Gallery collections.	Management review of reasonableness and compliance with accounting requirements.	Insurance experts.	The insurance valuation is a reasonable proxy. .	No.
Measure of financial instrument fair values.	Fair value of investments assessed by using the present value of future cash flows discounted at market rates. For service concessions the fair value is based on financial models provided by external consultants.	Management review of reasonableness and compliance with accounting requirements.	External expert provided the initial financial models for service concessions. Treasury Management advisers are used as appropriate.	Uncertainty is high due to complexity of underlying assumptions. For longer term investments there is increased uncertainty about future market rates.	No.

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Long term obligations under, for example, PFI schemes.	For service concessions the fair value is based on financial models provided by external consultants.	Management review of reasonableness and compliance with accounting requirements..	An external expert provided the initial financial models for service concessions.	Uncertainty is high due to the complexity of underlying assumptions..	No.
Equal Pay.	Estimates have been based on historic information on settlements of similar claims, current negotiations with claimants' representative and with reference to legal advice on outcomes.	Review of information by Legal, Finance and Human Resources for reasonableness.	Support of Queen's Counsel for opinion on Equal Pay Liability.	There is a reasonably high level of uncertainty due to the volume, materiality and complexity of claims. The final sum due and the timing of payments is uncertain and will be influenced by court judgements, claim numbers, outcomes of negotiations and associated on costs.	No.

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Defined benefit pension liability	The estimates for the Local Government Pension Scheme are assessed on the latest full valuation and transaction information.	All major transfers of staff are identified and reported to the Actuary. Management review the information supplied for reasonableness	Actuary	There is a high level of estimation uncertainty in estimating the Council's future pension liabilities. The actuary is used to ensure that the estimate is produced on a consistent and appropriate basis.	No
Property Plant and Equipment valuations	A five year rolling revaluation programme, supplemented by annual reviews of significant changes in market values, is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years following DCLG guidance. In the intervening years a desk top review of the valuation is carried out. All assets are valued on an existing use basis.	Management issue instructions to the valuer and review the reasonableness and compliance with Code of Practice requirements of the valuations provided.	Internal Valuer	Asset valuations are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer taking into account market conditions and the RICS requirements.	No.

Group Accounts

Issue

Matters in relation to Group Accounts

ISA(UK&I) 600 summarises the special considerations the auditors of groups need to take into account, including the work of the auditors of component entities making up the group. For the group the audit risk includes the risk that material misstatement will not be detected by a component auditor.

The extent of the group auditor's work on component entities is determined by how financially significant each entity is. The group auditor is required to obtain an understanding of the group and its environment, including the operation of group wide controls and of the consolidation process, including the instructions issued by group management to components.

We need to understand how the Audit Committee oversees the activities of the group, the group's risk management processes, the accounting policies of the component entities and considers fraud risk. We also need to be aware of matters and events that could impact on our audit. These include allegations of frauds, errors or other irregularities, potential impairment of assets and transactions, and events and conditions that involve significant accounting estimates and accounting judgements

Group accounts considerations

Question	Management response
Management's views on the group's control environment (including group wide controls), the process of reviewing the effectiveness of the system of internal controls and the results of any review.	The components provide audited and signed off accounts to the Council. As a third party professional provides this opinion, reliance is placed on the outcome of this opinion to obtain assurance over the effectiveness of internal control. If there are issues these would be raised by the external auditor of the component.
Management's views on the group's risk assessment process as it is related to financial reporting.	All components produce accounts under a different framework and set of accounting standards namely FRS102 and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Matters and events which occurred during the year that could influence our audit approach or the entity's consolidated financial statements.	<p>The Council continues to review entities to determine whether they meet the criteria for consolidation into the Group accounts. This year it is anticipated that InReach will be of sufficient value to be consolidated.</p> <p>Following the disposal of the NEC Group, the Council took on responsibility for its closed pension schemes through a wholly owned subsidiary, PETPS Limited. An increase in this liability has meant that the Council has explored options to mitigate the impact through the creation of additional companies.</p>
The appropriateness of the group accounting policies to be used in the period, and whether any changes in the group's activities could require them to be updated.	As most companies are now producing their own accounts on the basis of FRS102, the alignment of accounting policies is less problematic.

Group accounts considerations

Question	Management response
Group management's processes for identifying and responding to risks of fraud.	<p>Audit Committee considers the single entity in their risk assessment and identification of fraud.</p> <p>In addition, a report was taken to Audit Committee in January 2017 regarding each Group components' view of their fraud risk.</p>
How those charged with governance monitor group management's processes for identifying and responding to risks of fraud.	<p>The Audit Committee approves accounts annually, which includes the group accounts. An annual exercise is now undertaken with group entities to provide Audit Committee with assurances around risks of fraud.</p>
Fraud risks within the group or any component within the group, including specific accounts or classes of transactions where fraud risks have been identified..	<p>A number of fraud risks were identified by Group Finance Directors, mainly around transaction processing, and reported to Audit Committee in January 2017. The risk of material misstatement due to fraud is low.</p>
How group management communicate to those charged with governance regarding business risks (including fraud).	<p>Directors of BCC sit on the boards of components/subsidiaries of BCC. Therefore if there were issues of fraud Directors would communicate this back to BCC channels.</p> <p>The Council approved the establishment of an Executive Committee to oversee Group Company Governance in September 2016.</p>

Group accounts considerations

Question	Management response
Management's awareness of any events or changes in circumstances that would cause an impairment of non-current assets.	An impairment review is done by entities. The accounting questionnaire sent by BCC to components/subsidiaries asks questions over impairments to capture this information.
Management's awareness of allegations of fraud, errors or other irregularities during the period.	Group entities report their respective positions each January in a report considered by Audit Committee. One fraud was investigated and found not to have initiated within the group entity.
Management's awareness of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	All components produce accounts under a different framework and set of accounting standards namely FRS102 and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Audit Committee's awareness of fraud or suspected fraud within any group component.	The relative size of the components means there is low material fraud risk from components.
Audit Committee's views about the risks of fraud within each business component.	Each individual Group component supplied information about the risk of fraud within their own entity as part of the report taken to Audit Committee in January 2017.



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