

Audit Committee Progress and Update Report for Birmingham City Council *Year ended 31 March 2016*

June 2016

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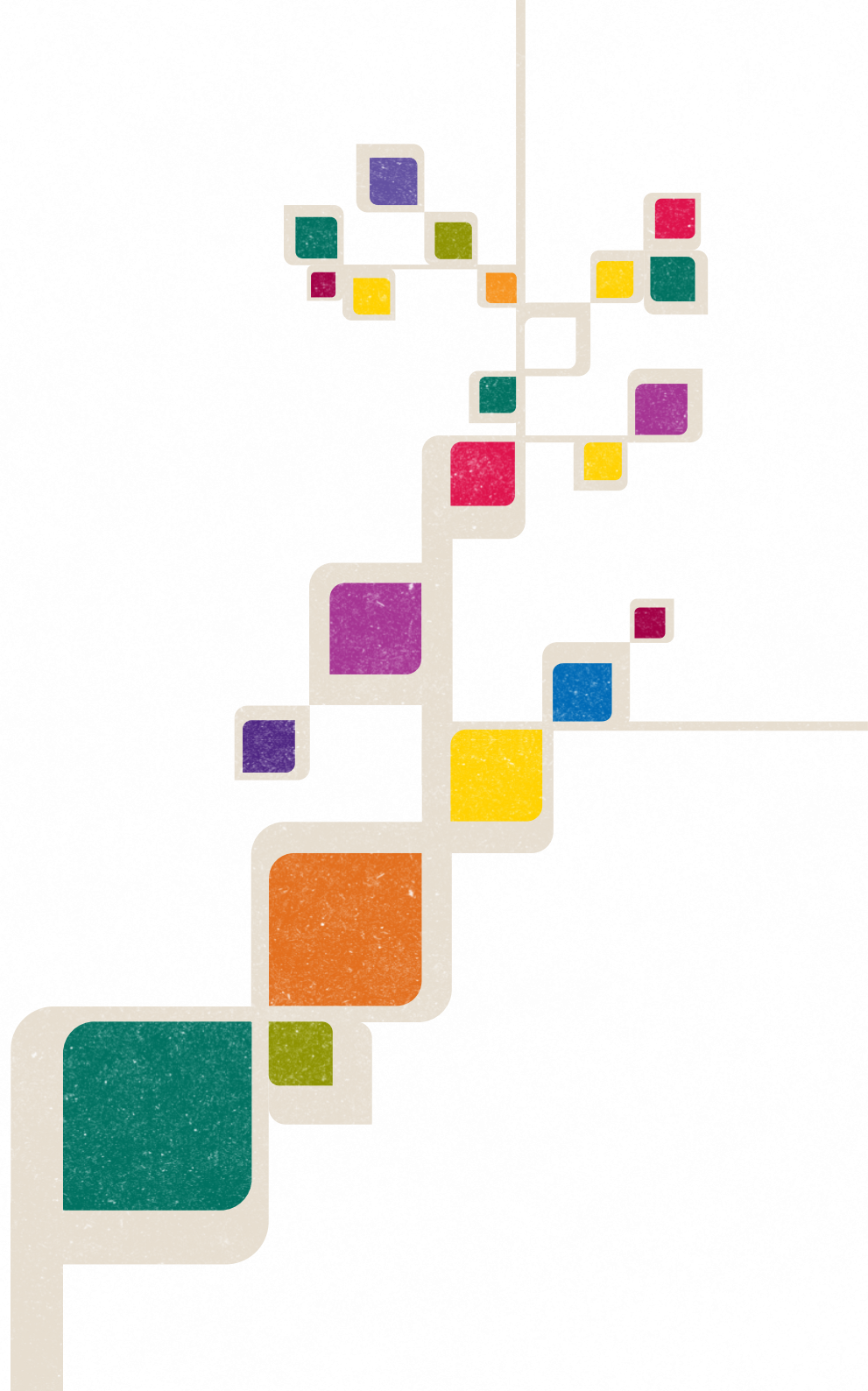
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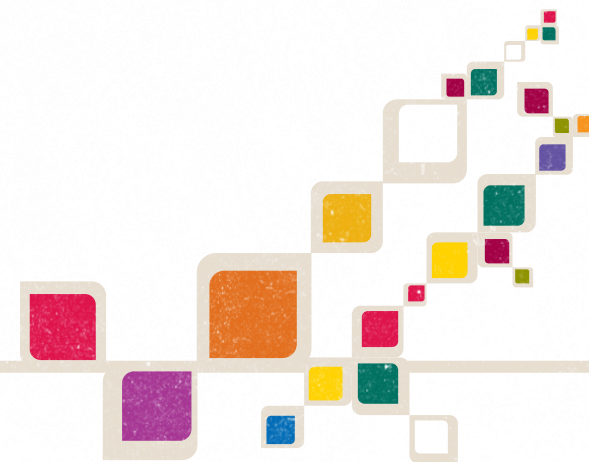
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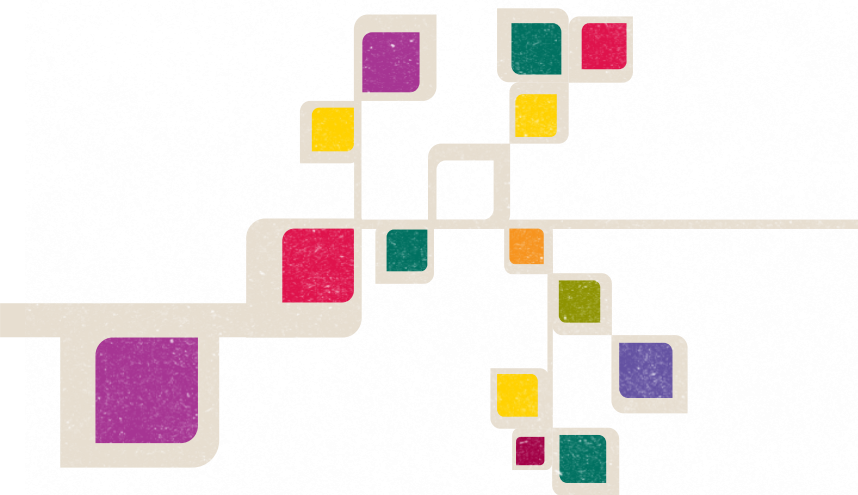
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- Better Together: Building a successful joint venture company;
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ;
www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015)
www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



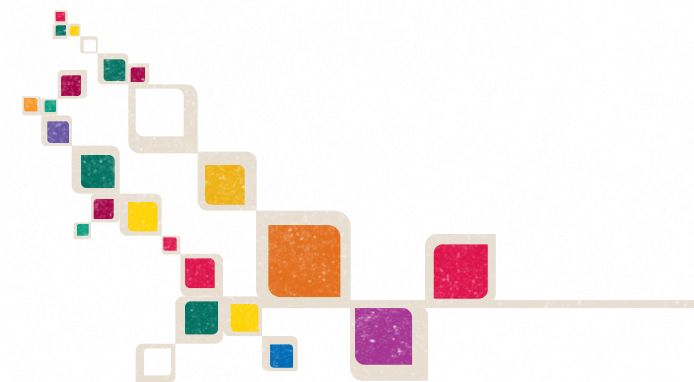
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Progress at 21 June 2016



Progress against plan
On track



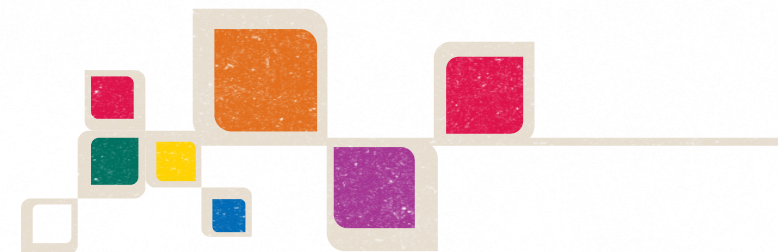
Opinion and VfM conclusion
Plan to give before deadline of
30 September 2016



Outputs delivered
Fee letter, Progress Reports, delivered
to plan

2015/16 work	Completed	Comments
Fee Letter We issued the planned fee letter for 2015/16 in April 2015.	April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit Committee.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements. We also inform you of any subsequent changes to our audit approach.	March 2016	This was presented to the Audit Committee in March.
Interim accounts audit Our interim fieldwork visit included: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	March 2016	Interim audit findings for the work completed to date are included in this report (pages 7 - 9). As part of our formal communication between auditors and the council's Audit Committee, as 'those charged with governance', we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit Committee under auditing standards. This was also presented to the Audit Committee in March.

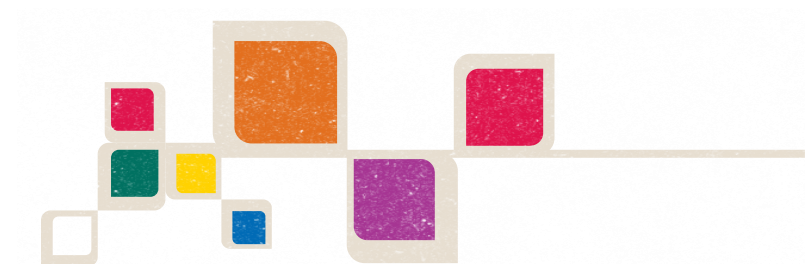
Progress at 13 May 2016



2015/16 work	Completed	Comments
Final accounts audit Including: <ul style="list-style-type: none"> Audit of the 2015-16 financial statements proposed opinion on the Council's accounts 	Planned for June - August, In Progress	<p>We are planning to complete our audit by 31st August as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>We are working with the Financial Accounts Team to support improvements in accounts production efficiency and the project management of the audit</p>
Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	Field work in March – July, In Progress	<p>We have considered the potential significant risks for our VfM conclusion and identified the following issues:</p> <ul style="list-style-type: none"> - Future Council - Savings challenge - Health and social care funding - Services for vulnerable children - Management of Schools - Improvement Panel - Equal pay <p>We have begun to carry out key document reviews and interviews to inform our conclusion.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p>
Other activities We provide a range of workshops, along with network events for members and publications to support the Council. Meetings with Members, Officers and others.	On-going	<p>We are continuing to hold regular meetings with key members, the Chief Executive and Strategic Directors. We also have meetings planned with the Children's Commissioner and the Vice Chair of the Improvement Panel</p> <p>Further details of the publications that may be of interest to the Council are set out from page 13.</p>

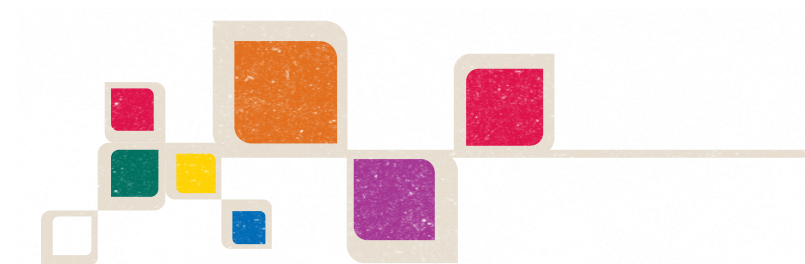
Results of interim audit work

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



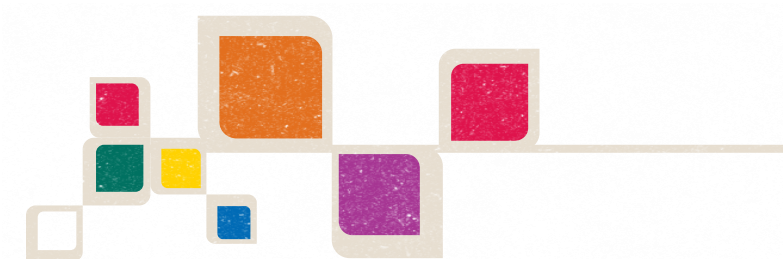
	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. We have also considered the outcome of internal audit's work on the Council's key financial systems to date.	Overall, we have concluded that the arrangements for internal audit contribute to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses in these overall controls which are likely to adversely impact on the Council's financial statements
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our testing strategy. We have carried out testing of material journal types from months 1 to 9, and extracted journals with 'unusual' criteria for detailed review.	We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. Further work will be completed at the final accounts visit to update our journals testing to the year end, including coverage of both material and non-material journals types.

Results of interim audit work



	Work performed	Conclusion
IT controls	<p>We have undertaken a detailed review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>We considered the progress made to implement the recommendations made in 2014/15.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>.</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – namely employee remuneration and operating expenses.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>Our walkthrough testing confirms that internal controls have been implemented by the Council in accordance with our documented understanding and our work has not identified any weaknesses which impact on our planned audit approach.</p> <p>We have also commenced walkthrough tests of controls relating to property, plant and equipment. Some of these controls are year end controls so we will complete the walkthrough testing during our final account visit. Testing to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Results of interim audit work



We have carried out some substantive testing at this early stage of the audit and this will be extended at the accounts audit.

	Work performed	Conclusion
Employee remuneration	<p>In our testing completed to date we have:</p> <ul style="list-style-type: none"> Performed a trend analysis for the full year to identify areas which may require additional procedures. Tested a sample of items of payroll expenditure for the full year to relevant documentation to confirm the accuracy of pay. 	<p>Our work on Employee Remuneration is substantially complete. To date our work has not identified any issues that we wish to highlight for your attention.</p> <p>Further testing will be carried out at our accounts audit visit to finalise our work including review of any fluctuations identified via our trend analysis, and updating our testing of a sample of payroll expenditure.</p>
Operating expenditure	<p>We tested a initial sample of operating expenses from months 1 to 9 to ensure they are valid expenses and have been accurately accounted for in the correct period.</p>	<p>Our work has not identified any issues that we wish to highlight for your attention.</p>
Housing benefit expenditure	<p>In our testing completed to date we have:</p> <ul style="list-style-type: none"> Confirmed the correct parameters have been entered into the housing benefit system 	<p>Our work completed to date has not identified any issues that we wish to highlight for your attention.</p> <p>Further testing will be carried out at our accounts visit, to include testing based on the 'HB COUNT' approach as in previous years.</p>
Assets	<p>In our testing completed to date we have:</p> <ul style="list-style-type: none"> Verified a sample of the Council's property assets to the deeds. Verified the existence of a sample of the Council's property, plant and equipment assets. 	<p>Our work to date has not identified any issues that we wish to highlight for your attention.</p>
Opening balances	<p>We have confirmed that the opening balances brought into the general ledger for 2015/16 are in agreement with the audited balance sheet for 2014/15.</p>	<p>No matters to bring to your attention.</p>

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and the NAO guidance state that auditors are only required to report by exception where they are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out in the table to the right.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements
- illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we consider necessary to conclude on your arrangements

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

Value for money

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Savings Challenge	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	<p>We propose to meet with key officers to discuss key strategic challenges and the Council's proposed response and consider reports to members to:</p> <ul style="list-style-type: none"> • review the outturn position for 15/16 and the budget plans for 16/17 and 17/18 • review the Council's progress in updating its medium term financial strategy
Future Council	This links to the Council's arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities and also to the arrangements for managing risks effectively and maintaining a sound system of internal control.	<p>We will discuss with key officers and review reports to consider:</p> <ul style="list-style-type: none"> • what progress is being made to implement the service reviews • how the Council is addressing the risks and challenges associated with the changes in working arrangements • how the Council is dealing with the one off costs associated with the changes.
Health and Social Care Funding	This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.	We will consider the Council's arrangements to monitor the performance and governance of this venture and how it continues to assess whether the joint venture contributes to the effective delivery of its strategic objectives, through discussion with officers and review of key documents.

Value for money

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Services for Vulnerable Children	This links to the Council's arrangements for commissioning services effectively to deliver strategic priorities.	We will discuss with key officers and review update reports from and to the DFE to consider what progress the Council has made with the improvement plan.
Management of Schools	This links to the Council's arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance.	We will discuss with Sir Mike Tomlinson (Education Commissioner) and key officers to assess the progress made by the Council with the implementation of the Single Integrated Plan.
Improvement Panel	This links to the Council's arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance and the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	We will discuss with Frances Done (Vice Chair of the Improvement Panel) and review reports to the Secretary of State to understand the Improvement Panel's assessment of the progress made by the Council.
Equal Pay	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	We will discuss with key officers and review the Equal Pay settlement plan and consider the residual risk following the sale of Grand Central.

Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton reports

We have published our first cross-sector review of Audit Committee effectiveness encompassing the corporate, not for profit and public sectors.

It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. The report is structured into four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

The detailed report is available here

<http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>



Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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