Grant Thornton

External Audit Plan

Year ending 31 March 2018

Birmingham City Council

March 2018

Contents

Your key Grant Thornton team members are:

Phil Jones
Director
T: 0121 232 5437
E: phil.w.jones@uk.gt.com

Laura Hinsley
Senior Manager
T: 0121 232 5235
E: laura.e.hinsley@uk.gt.com

Tess Barker
Assistant Manager
T: 0121 232 5428
E: tess.s.barker@uk.gt.com

Bethany Hincks
In-charge Accountant
T: 0121 232 5364
E: bethany.c.hincks@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or 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 & 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 in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Birmingham City Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

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

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

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

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • The non-rebuttable presumed risk under ISA 240 that the risk of management over-ride of controls is present in all entities • Valuation of property, plant and equipment • Valuation of pension fund net liability 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 for the Group to be £43.8m (2016/17: £43.4m) and for the single entity (the Council) £43.6m (2016/17: £43.2m). This equates to 1.5% of the gross cost of services expenditure for the prior year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 'Clearly trivial' has been set at £2.2m (2016/17: £2.2m).

Introduction & headlines

Value for Money (VfM) arrangements	In 2016/17 we issued a qualified 'adverse' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The weaknesses in arrangements which we identified, were both significant in terms of their impact and numerous in terms of the number of different aspects, that we were unable to satisfy ourselves that the Council had proper arrangements to secure VfM. Our risk assessment regarding your arrangements to secure value for money for the 2017/18 financial year have identified the following VFM significant risks: • Budget delivery and reserves management, as well as saving proposals (including principles of the Future Operating Model (FOM)) and Equal Pay; • Improvement Panel; • Services for vulnerable children; • Management of schools; and • Commonwealth Games.
Audit logistics	Our interim visit will take place in February and our final visit will take place in between May and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £314,168 (prior year: £314,168) for the Council.
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.
Audit Report	Birmingham City Council has approximately £214m of debt listed on the London Stock Exchange. Additionally NEC Developments, a subsidiary of the Council consolidated into the group accounts, has approximately £73m of debt listed on the London Stock Exchange. An entity with listed debt is a Public Interest Entity (PIE), which has enhanced audit reporting requirements under ISA (UK) 700. Further details are set out in appendix A.

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. Recent high-profile collapses such as Carillion also point to the need for local authorities to understand the financial resilience of the organisations they contract or partner with.

Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. The Chancellor of the Exchequer agreed and signed a devolution deal with the members of the WMCA in 2015. The first West Midlands Mayor was elected in 2017.

The Budget of 22 November 2017 confirmed a second devolution deal.

Whilst this will not impact the Council directly, it will impact upon the working relationships between the Council and the Combined Authority as well as how the Council implements new joint projects.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA has introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Financial challenges

Financial pressures

Birmingham City Council set its net revenue budget of £821.8m in February 2017. This included a savings programme of £70.9m in 17/18, growing to £171.4m in 20/21. In addition, there were un-delivered savings from 16/17 of £14.4m resulting in total savings to be met in 17/18 of £85.3m.

At M8, forecast projections indicate underspends of £19.0m in base budget delivery and £22.1m of savings that are not fully achieved, totalling a year end overspend of £3.1m. The M8 position has been subsidised by a transfer of £9.6m from reserves to the general fund. We will continue to monitor the Councils use of reserves.

Impacts of Grenfell Tower fire

The Grenfell Tower fire disaster has led to the identification of approximately 150 high rise buildings in local authority ownership that have failed fire safety tests. Local authorities are expected to make these buildings fire safe. DCLG are reviewing the current restrictions on the use of the financial resources that prevent local authorities from making essential fire safety upgrades.

Birmingham City Council has announced its intention to install sprinkler systems and other fire suppression measures in all its residential tower blocks. This will require an additional investment estimated at £31m (approximately £3,000 per property).

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 uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	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	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. Management over-ride of controls is a risk requiring special audit consideration.	We have: • Updated our review of the control environment for the preparation and authorisation of journal entries and perform a walkthrough of the controls. We will: • Test the completeness of the journal listing; • Analyse journals listing to identify any unusual changes in volume or value of journals; • Identify and select journals which we deemed to be high risk or unusual; • Test all high risk journals and obtain managements explanations and corroborating evidence; • If applicable, test all significant adjustments made after the draft accounts have been presented to external audit; and • Review management estimates and critical judgements by challenging assumptions, verifying completeness and accuracy of source date and checking calculations.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	The Council revalues its land and buildings on a rolling five year programme to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.	We have: • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that revaluation measurements are correct. We will: • Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Consider of the competence, expertise and objectivity of any management experts used; • Discuss with the valuer about the basis on which the valuation is carried out and challenge of the key assumption; • Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • Test revaluations made during the year to ensure they are input correctly into the Council's asset register; and • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	We will: • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made; • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary; and • Review the PwC report (as auditor’s expert) and perform any additional procedures suggested from this report.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage (approximately 30%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	We will • Evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • Obtain year-end payroll reconciliation, ensure the amount in the accounts can be reconciled to the ledger and through to payroll reports, and investigate significant adjusting items; and • Agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness. • Complete Substantive Analytical Procedures on 12 months of payroll data and investigate any variances outside of our 'acceptable range'
Operating expenses	Non-pay expenses on other goods and services also represents a significant percentage (approximately 50%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	We will • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Document the accruals process and the controls management have put in place. We will challenge any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations; and • Obtain a listing of non-pay payments made in April, and test a non-statistical sample of transactions to ensure that they have been charged to the appropriate year.

Reasonably possible risks identified (continued)

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Property, plant and equipment - additions	The forecast capital spend for 2017/18 as at Q2 is £474.2m which represents a significant level of expenditure for the Council. As additions spend relates to a high number of individual transactions, including some complex projects, there is a risk that additions could be capitalised incorrectly. We have therefore identified valuation of property, plant and equipment additions as a risk requiring particular audit attention.	We will • gain an understanding of the Council's system for accounting for additions to property, plant and equipment and evaluate the design of the associated controls; • obtain a breakdown of additions and review for individually significant or unusual items to be tested; and • if the residual population is above tolerable error, we will select a sample of remaining additions and agree to invoices, certificates or equivalent in order to to confirm that the cost has been accurately recorded, that the asset belongs to the Council and that is has been correctly classified.

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 carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- 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 Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Statutory powers and duties

We included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014 (‘Section 24’) in our 2015/16 Annual Audit Letter relating to the adequacy of budgetary arrangements.

A formal response was provided by the Council in January 2017 and we continued to monitor progress on the delivery of the 2017/18 budget and associated saving programmes as well as following up progress made on the section 24 recommendations.

Last year we concluded that, the Council needed to continue to take action to manage the emerging trend of under-delivery of savings against plan to date, specifically to mitigate current directorate plans which are not achieving anticipated savings targets, but also to ensure that further non-delivery of savings does not occur in other planned areas currently shown as on track. This would have the effect of further increasing the overall forecast revenue overspend.

We will continue to monitor progress in 2017/18 as part of our VfM procedures.

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 entity's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Guarantees

As highlighted in our 2016/17 Audit Finding Report the Council identified a number of contractual arrangements within its Group either in the form of pension guarantees or other contractual obligations. The accounting for these guarantees should then be determined with reference to the nature of the agreement between the parties involved and consideration as to whether these are derivative financial liabilities under IAS39 Financial Instruments: Recognition and Measurement or insurance contracts under IFRS 4 Insurance Contracts, dependent on the risks involved, therefore bringing the liability onto the balance sheet.

We will work with the Council to ensure significant obligations are identified, the nature of each transaction is understood and the accounting treatment adopted is appropriate.

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

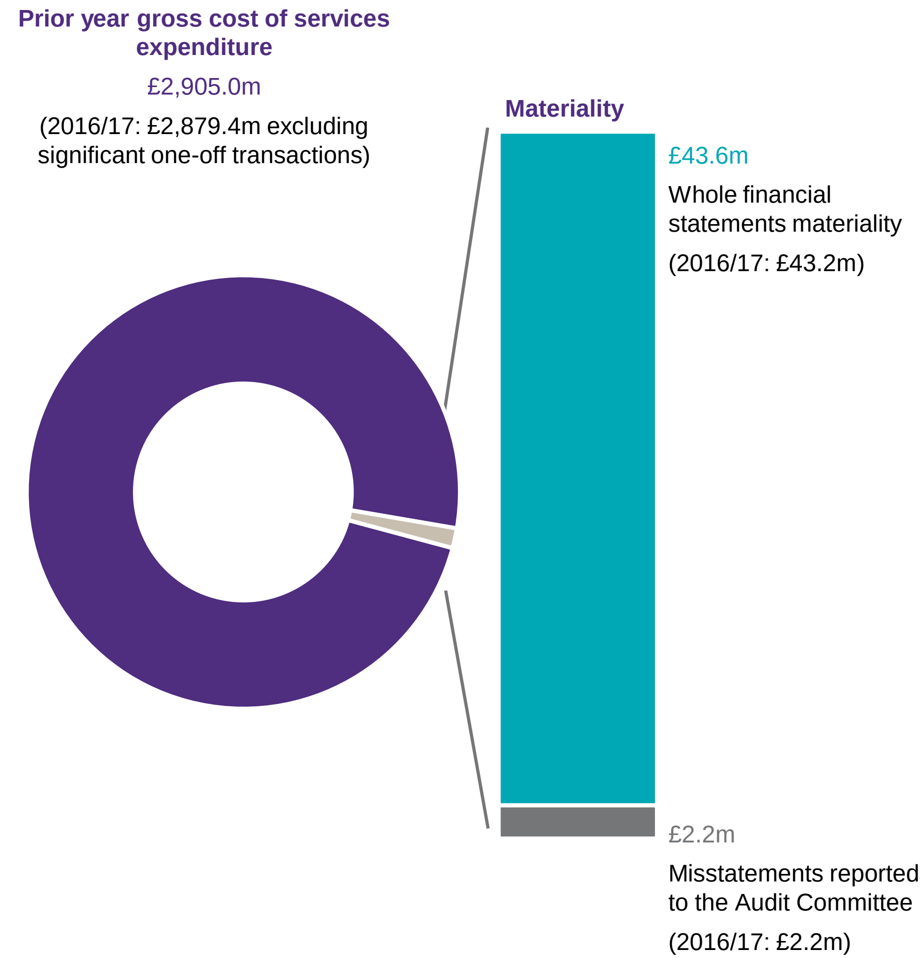
We propose to calculate financial statement materiality based on a proportion of the gross revenue cost of services expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £43.6m (2016/17: £43.2m), which equates to 1.5% of your gross cost of services expenditure for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

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 Council, we propose that an individual difference could normally be considered to be 'clearly trivial' if it is less than £2.2m (2016/17: £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.



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	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
NEC (Developments) plc	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Innovation Birmingham Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Acivico Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
PETPS (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
InReach (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Performances Birmingham Ltd	No	Analytical	TBC if within group boundary	If deemed to fall within group boundary - agreement of consolidation using audited accounts and analytical approach. If not – review of the Council's assessment that the entity does not meet the definition of a subsidiary.
Birmingham Museums Trust Ltd	No	Analytical	TBC if within group boundary	If deemed to fall within group boundary - agreement of consolidation using audited accounts and analytical approach. If not – review of the Council's assessment that the entity does not meet the definition of a subsidiary.
Birmingham City Propco Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Paradise Circus Limited Partnership	No	Analytical	Joint Venture	Agreement of consolidation using audited accounts and analytical approach
Service Birmingham Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach
Birmingham Airport Holdings Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach

Key changes within the group:

- Disposal of shares in Service Birmingham and planned sale of Innovation Birmingham Limited.
- New entities set up – new PETPS group entities and Birmingham City Propco.
- Consideration of whether Performances Birmingham Limited and Birmingham Museums Trust meet the definition of a subsidiary and the potential need for a prior period adjustment.

Audit scope:
Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Value for Money arrangements

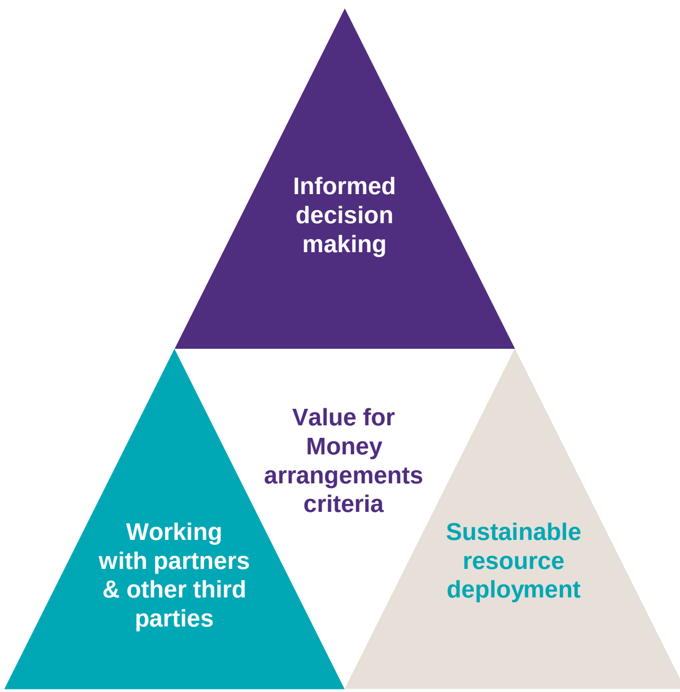
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 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.

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 specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay

The key risk is that the proposed savings schemes (including the implementation savings proposals) will not deliver the required recurrent savings, or will take longer to implement than planned.

We will review the Council's latest financial reports including savings plans trackers, to establish how the Council is identifying, managing and monitoring this risk. This will involve considering the adequacy of reserves and their prudent use. We will also consider the transparency of financial reporting.

Improvement Panel

The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.

We will consider the Improvement Panel's reports and discuss the progress made and key issues with the Improvement Panel Vice Chair, to establish how the Council is identifying, managing and monitoring this risk.

Value for Money arrangements (continued)

Services for Vulnerable Children

The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.

We will review the latest findings from Ofsted, to establish how the Council is identifying, managing and monitoring this risk.

Management of Schools

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

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

Commonwealth Games

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

We will review the Council's latest plans for the delivery of the Commonwealth Games in 2022, to establish how the Council is identifying, managing and monitoring this risk.

Audit logistics, team & audit fees

Phil Jones, Engagement Lead

Laura Hinsley, Audit Senior Manager

Tess Barker, Audit Assistant Manager

Audit fees

The planned audit fees are no less than £314,168 (2016/17: £314,168) for the financial statements audit and £17,594 (2016/17: £22,600) for the Housing Benefit Certification. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

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

Early close

Meeting the early close timeframe

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

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

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

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

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 15). Where the elapsed time to complete an audit exceeds that agreed due to a client 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 client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, 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
- respond promptly and adequately to audit queries.

In return, we will ensure that:

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

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.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence & non-audit services

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of grant claims (outside PSAA requirements)	92,100	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 £92,100 in comparison to the total fee for the audit of £314,168 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The fee for grant certification is higher than in previous years due to the complex and numerous Regional Growth Fund grant certifications. We are currently in the process of undertaking retrospective work to certify six grants over a period of four years. The fee for this work is £68,850.
Non-audit related			
CFOi	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee (subscription based for 3 years) taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £314,168 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
CASS reporting – Finance Birmingham	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £314,168 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services listed above have been approved by management and are presented to the Audit Committee in our Audit Plans and Audit Findings Reports.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Appendices

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Key Audit Matters (KAM)	We will be required to include matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters will be selected from those matters communicated with those charged with governance. The auditor's report will include a description of the KAM, our response and key observations.
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Other matters which we are required to address	We will be required to include details of who appointed us, date of appointment, period of uninterrupted engagement, non-audit services, and that the audit opinion is consistent with the Audit Findings Report.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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