



# The Audit Plan for Birmingham City Council

**Year ending 31 March 2016**

15<sup>th</sup> March 2016

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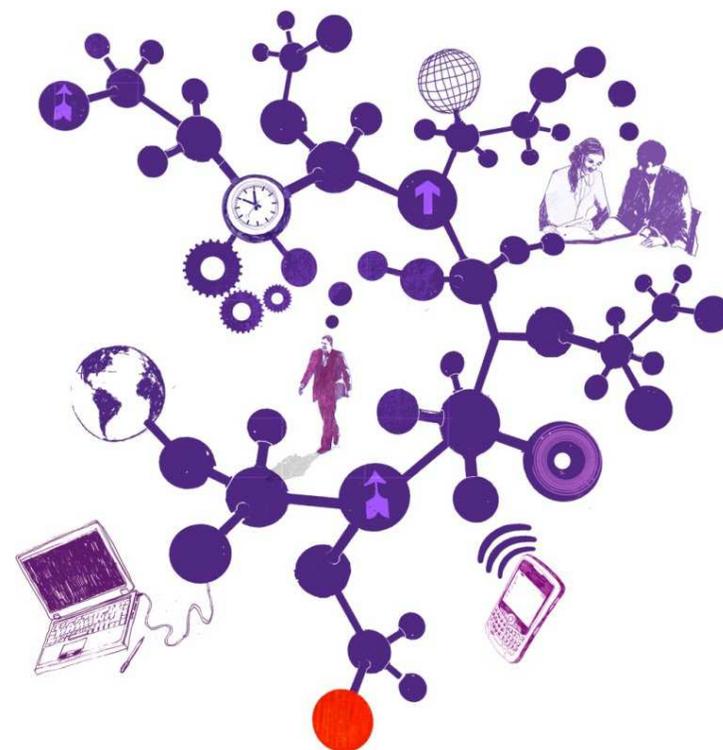
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Birmingham City Council  
Council House  
Victoria Square  
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15<sup>th</sup> March 2016

Dear Members of the Audit Committee

**Audit Plan for Birmingham City Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Birmingham City Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Phil W Jones  
Engagement Lead

**Chartered Accountants**

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# Understanding your business

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

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Autumn Statement highlighted a 24% reduction in local government funding over the next 5 years.
- The financial health of the sector is likely to become increasingly challenging.
- The Council needs to save a further £250m over the next 4 years. It has already made £560m savings since 2010/11



### 2. Devolution

- The Autumn Statement included proposals to devolve further powers to localities.
- The devolution proposal for West Midlands Combined Authority has been agreed and the new organisation is in the process of being set up.



### 3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.



### 4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- The Council has entered into Better Care Fund agreements with three local Clinical Commissioning Groups.



### 5. The Future Council

- The Council are working towards fully addressing the recommendations of the Kerslake report through the 'Future Council'.
- The 'Future Council' is an ambitious and extensive programme to reshape the Council across five key areas.



## Our response

- We will consider the Council's plans for addressing its financial challenge as part of our work to support our VfM conclusion.
- We will report our findings to the Strategic Director – Finance and Legal Services and the Audit Committee.

- We will consider how the Council is working with its partners to develop the WMCA as part of our regular update meetings with Strategic Directors.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our VfM conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements where this is significant to the accounts.

- We will review the plans and progress made with the Future Council work streams as part of our VfM conclusion work.

# Developments and other requirements relevant to your audit

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

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

### 4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- The Council has pooled budget arrangements with 3 local CCGs amounting to in excess of £100m

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

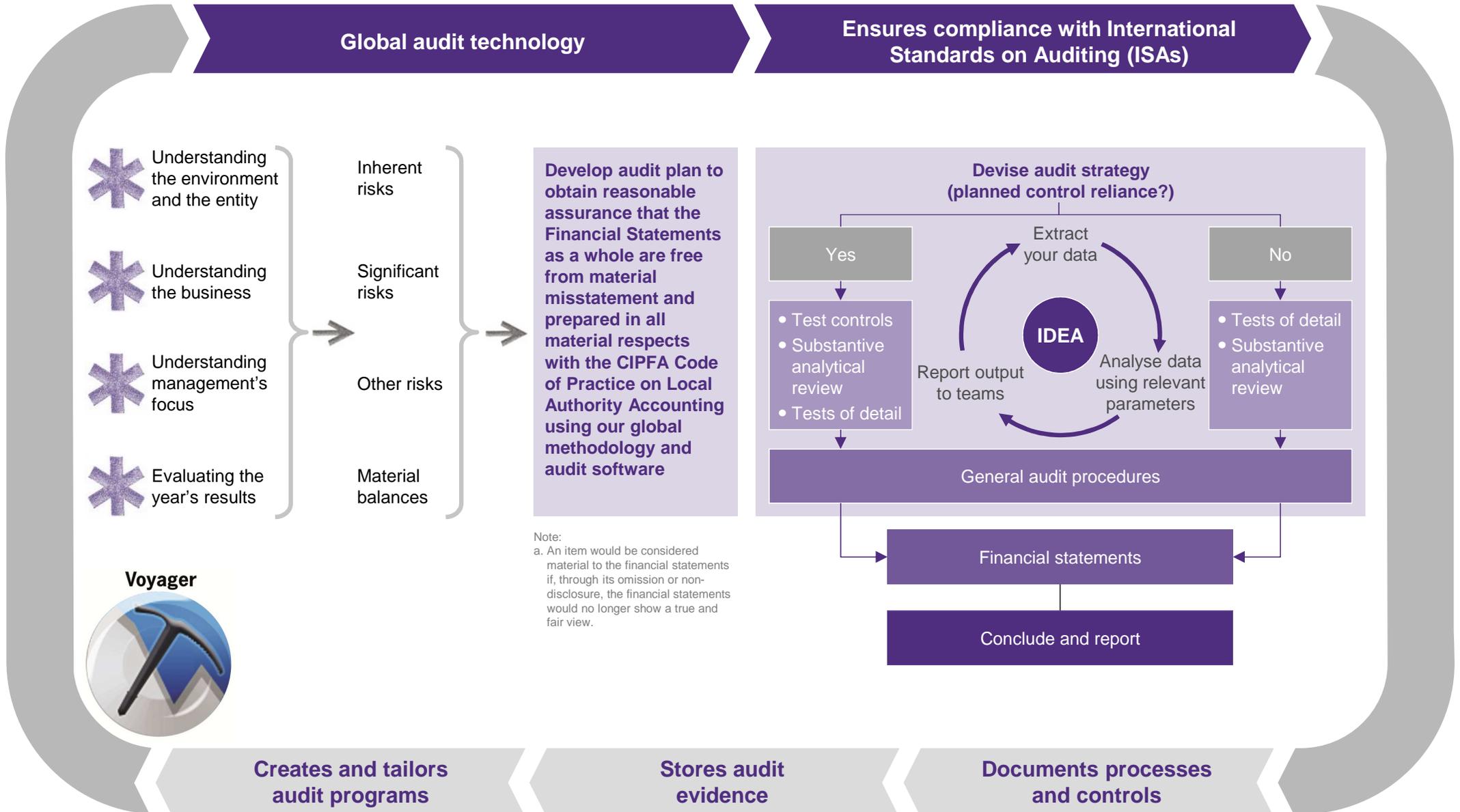
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

- We will Continue to work with you to identify efficiency improvements in your accounts production and audit support. We will look for areas where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 as a 'dry run'.

# Our audit approach



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that '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'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue (Cost of Services) expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £45.126 million (being 1.5 per cent of gross Cost of Services expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £50.982 million (being 1.5 per cent of gross Cost of Services expenditure).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2.256 million.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents may not be material at year end, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	This is treated as a sensitive item although no specific materiality value is set.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2.256 million
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2.256 million

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. At the time of drafting this plan our interim work is in progress. We will inform the Audit Committee if we decide to modify our audit approach on completion of our interim audit work.

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Birmingham City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Review of the control environment for preparation and authorisation of journal entries</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Sale of the NEC and Grand Central	<p>Risk that complex accounting entries requirements are not correctly posted in the accounts</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting treatment of sale proceeds</li> <li>• Substantive testing to ensure the lease/investment arrangements have been correctly eliminated from the accounts</li> <li>• Substantive testing of sales proceeds</li> </ul>
Actuarial valuation of LGPS pension liability	<p>Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty give rise to a significant risk.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Document the processes and controls in place.</li> <li>• Use the work of an auditor's expert (PwC report on LGPS actuaries) to gain assurance that methods and assumptions used in the valuation are reasonable and appropriate.</li> <li>• Review the data submitted to the actuary</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Equal Pay Provision	Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty give rise to a significant risk.	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Review of the assumptions on which the estimate is based</li> <li>• Consider events or conditions that could change the basis of estimation</li> <li>• Check the calculation of the estimate</li> <li>• Check that the estimate has been determined and recognised in accordance with accounting standards</li> <li>• Determine how management have assessed estimation uncertainty</li> <li>• Consider the impact of subsequent transactions</li> </ul>
Property, Plant and Equipment	Risk that revaluation measurement is not correct	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Updated our documentation and undertaken a walkthrough of the controls in place to ensure that revaluation measurements are correct</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Undertake testing of revaluations, including instructions to the valuer and valuer's report</li> <li>• Evaluate compliance with revised requirements of the Code for revaluation</li> <li>• Test of revaluation when assets brought into use</li> <li>• Review of the procedures used to ensure that assets not revalued in year (due to the council's rolling 5-year revaluation programme) are not materially misstated</li> </ul>
Better Care Fund	Risk that transactions are not accounted for correctly	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Obtain an understanding of the nature of any Better Care Fund agreements in place, and document the control environment.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting treatment of significant agreements</li> <li>• Agreement of accounting entries and disclosures in the financial statements</li> </ul>

# Other risks identified

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. At the time of drafting this plan our interim work is in progress. We will inform the Audit Committee if we decide to modify our audit approach on completion of our interim audit work.

Other risks	Description	Audit approach
Property, Plant and Equipment	Risk that property, plant and equipment activity is not valid	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>Updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test agreement of the fixed asset register to the accounts and supporting notes</li> <li>Test a sample of PPE additions and disposals including compliance with capitalisation requirements</li> </ul>
Property, Plant and Equipment	Risk that property, plant and equipment allowance for depreciation is not adequate	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>Updated our documentation and undertaken a walkthrough of the controls in place to ensure that depreciation is adequate</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test depreciation and impairments, including evidence of review of useful economic lives and mathematical accuracy</li> <li>Test of surplus or deficit on disposal</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Updated our documentation of the payroll system</li> <li>• Undertaken a walkthrough of the controls in place to ensure payroll expenses are not understated and are recorded in the correct period</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Reconcile the annual payroll to the ledger and to the segmental analysis note in the accounts</li> <li>• Complete trend analysis of monthly and weekly payroll payments covering 2015/16 and comparing to 2014/15 to determine whether substantive testing required</li> <li>• Review of payroll accrual processes and determine whether substantive testing required</li> <li>• Substantive testing of the completeness of IAS19 pension liabilities</li> <li>• Agreement of employee remuneration disclosures in the financial statements to supporting evidence</li> </ul>
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Updated our documentation of the operating expenditure system</li> <li>• Undertaken a walkthrough of the controls in place to ensure operating expenses are not understated and are recorded in the correct period</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review the application of the year end closedown process for capturing creditor accruals</li> <li>• Undertake substantive testing of year end creditors including after date payments</li> <li>• Test Goods Received not Invoiced listing to confirm appropriate accruals</li> <li>• Review control account reconciliations covering the agreement of creditor payments to the ledger</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Early closure of the accounts	Risk that issues may arise due to the earlier closure of the accounts compared to prior years, an increased use of estimations, and a potential reduction in quality assurance capacity due to senior staff secondments.	<p><b>Interim work:</b></p> <ul style="list-style-type: none"> <li>• Continued discussions with council officers to identify any potential issues that may arise due to the earlier closure of the accounts</li> <li>• Documentation of the use of estimates in the accounts including any changes from prior year</li> <li>• Specific testing of significant estimates</li> </ul>

### 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 the previous section but will include :

- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

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# Other risks identified (continued)

## **Other audit responsibilities**

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Our proposed approach is summarised below. We will inform the Audit Committee if we decide to change this approach.

Component	Significant?	Level of response required under ISA 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
Performances (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
Birmingham Museums Trust	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

# Value for Money

## Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider 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 NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

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 below:

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

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# Value for Money (continued)

## **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.
- the findings of other inspectorates and review agencies, including Ofsted and the Improvement Panel.
- any 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.*

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report which we will present to the Audit Committee on 12 September 2016.

We will include our value for money conclusion as part of our audit report on your financial statements which we will issue by the statutory deadline of 30 September 2016.

## Value for money (continued)

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
<p><b>Future Council</b> The programme is ambitious and extensive. It has five work streams and it is essential that delivery is effectively managed. The key risk is that deliverables are not clearly identified, project and risk management arrangements are not effective, and as a result changes are not implemented as intended.</p>	<p>This links primarily to the sustainable resource deployment sub criteria and relates to all three detailed elements of this sub criteria. It also links to the working with third parties and commissioning services effectively related to working with partners and other third parties sub-criteria.</p>	<p>Review programme structure to gain an understanding of the key deliverables and milestones for each of the work streams. Consider the project management arrangements in place and the overall governance and reporting arrangements.</p>
<p><b>Savings challenge</b> The Council has identified an overall savings challenge of over £215 million to be delivered in the four years to 2019/20. The five largest savings schemes proposed over the period account for just under half of the savings target. They are challenging and include health and social care service redesign, efficiency improvements and workforce changes. The key risk is that these schemes will not deliver the required recurrent savings, or will take longer to implement than planned.</p>	<p>This links primarily to the sustainable resource deployment sub criteria, in particular planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. It also links to the managing assets effectively and planning, organising and developing the workforce under this sub-criteria.</p>	<p>We will focus on the five highest value savings schemes and identify the actions being taken to secure delivery. This includes considering the results of public consultation; project management arrangements, including savings delivery tracking; and risk management and any contingency plans for delayed delivery.</p>
<p><b>Health and Social Care funding</b> The Council has a good track record of controlling health and social care spend and has extensive partnership arrangements with Health bodies. Delivery of service outcomes is dependent on effective partnership working with Clinical Commissioning Groups. The key risk is that partnership arrangements do not fully deliver service outcomes and improvements.</p>	<p>This links primarily to the working with partners and other third parties sub criteria, in particular working with third parties effectively to deliver strategic priorities and commissioning services effectively to support the delivery of strategic priorities.</p>	<p>We will consider the governance arrangements for Better Care Fund and other pooling agreements. In particular the clarity of lines of accountability to the Council. We will also consider risk sharing arrangements in place.</p>

## Value for money (continued)

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Services for vulnerable children</b> The Council's services for vulnerable children are assessed as inadequate by Ofsted and subject to an Improvement Notice. The Secretary of State has appointed a second Children's Commissioner. The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention.</p>	<p>This links primarily to the informed decision making sub criteria, in particular understanding and using appropriate cost and performance information to support informed decision making and performance management. It also relates to the resource deployment sub criteria, in particular planning, organising and developing the workforce effectively to deliver strategic priorities</p>	<p>We will focus on the progress made against the improvement plan and how this is reported. We will discuss the progress made with the Children's Commissioner.</p>
<p><b>Management of schools</b> The Council's management of the governance of schools was found to be weak and an Education Commissioner was appointed by the Secretary of State. This appointment is continuing and the Birmingham Education Partnership (BEP) has responsibility for implementing the improvement plan. The key risk is that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed.</p>	<p>This links primarily to the informed decision making sub criteria, in particular acting in the public interest, through demonstrating and applying the principles and values of good governance, and managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will focus on the BEP's management and reporting of the Single Integrated Plan. We will discuss the progress made with the Education Commissioner.</p>
<p><b>Improvement Panel</b> The Improvement Panel has been in place since January 2015, following the publication of Lord Kerslake's report on the Council's governance. The Panel has reported to the Secretary of State on the progress made by the Council, but has also noted its concerns. The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.</p>	<p>This links primarily to the informed decision making sub criteria, in particular acting in the public interest, through demonstrating and applying the principles and values of good governance. It also links to the sustainable resource deployment sub criteria, in particular financial planning and workforce development.</p>	<p>We will consider the Improvement Panels reports and discuss the progress made and key issues with the Improvement Panel Vice Chair.</p>
<p><b>Equal Pay</b> The Council has a settlement plan for Equal Pay claims that is dependent on utilising capital receipts. The key risk is that there will be insufficient resources available to meet these commitments.</p>	<p>This links primarily to the related to sustainable resource deployment sub criteria, in particular managing assets effectively to support the delivery of strategic priorities</p>	<p>We will consider the progress made with the settlement of equal pay claims and the plans in place to ensure that the settlement programme is delivered.</p>

# Results of interim audit work to date

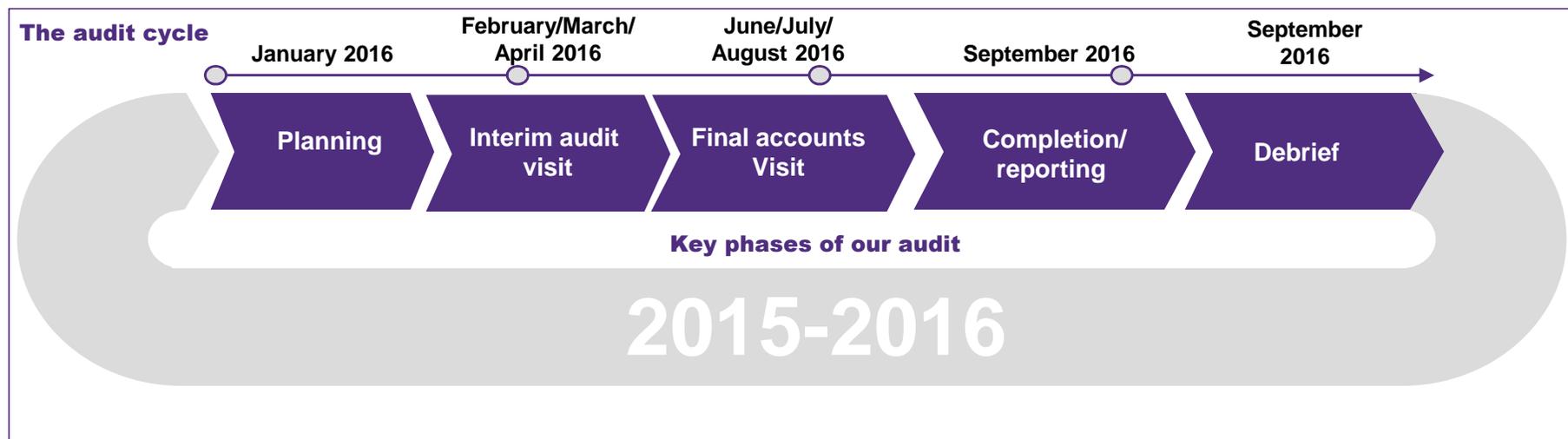
The findings of our interim audit work to date, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusion</b>
<b>Internal audit</b>	We have reviewed internal audit's work on the Council's key financial systems to January 2016.	Our review of internal audit's work on key financial systems up to January 2016 has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work on entity level controls has not identified material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our high level review of the IT control environment has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements. One recommendation has been identified, relating to a automated notifications about leavers as this is currently a manual process. IT service management have agree to take action on this.
<b>Walkthrough testing</b>	We have completed most of our walkthrough tests of the controls operating in areas where we consider there is a risk of material misstatement to the financial statements.	<p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p> <p>We will update our walkthrough of property, plant and equipment after year end to confirm that year end controls in this area are operating as expected.</p>

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	We have not identified any material weaknesses in the journal control environment which are likely to adversely impact on the Council's control environment or financial statements. We will undertake detailed testing of journals later in the year.
<b>Opening Balances</b>	We have confirmed that the 2015/16 ledger opening balances agree to the 2014/15 audited closing balances.  We await evidence of a journal adjustment to move the NEC investments to a specific ledger code, but are satisfied this does not have an impact on our work as the adjustment is within short term investments codes.	Our work has not identified any issues relating to the opening balance for 2015/16. We will review the adjustment relating to the NEC investments when this has been posted.

# Key dates



Date	Activity
January 2016	Planning
February/March/April 2016	Interim site visit
15 March 2016	Presentation of audit plan to Audit Committee
June/July/August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Assistant Director - Financial Services
12 September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	314,168
Grant certification	17,594
<b>Total audit fees (excluding VAT)</b>	<b>331,762</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant 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'.

## Fees for other services

Service	Fees £
Certification of grant claims (outside Audit Commission/PSAA requirements)	<b>16,700</b>
Finance Birmingham (agreed upon procedures)	<b>22,125</b>
<b>Total non-audit services (excluding VAT)</b>	<b>38,825</b>

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

## Independence and ethics

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

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

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

# Communication of audit matters with those charged with governance

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

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

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

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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



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