

# The Audit Plan for Birmingham City Council

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**Year ended 31 March 2017**

14 March 2017

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14 March 2017

Dear Members of the Audit Committee

**Audit Plan for Birmingham City Council for the year ending 31 March 2017**

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 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 which give a true and fair view.

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. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Phil W Jones

Engagement Lead

**Chartered Accountants**

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# Understanding your business and key developments

Developments	Key challenges	Financial reporting changes
<p><b>West Midlands Combined Authority</b></p> <p>WMCA's objectives are to make an annual contribution to the region worth £40 million for 30 years, to support an overall investment package that will unlock £8 billion, alongside the creation of up to half a million jobs.</p> <p>The Royal Assent for HS2 is a key development for WMCA and the region, improving transport links with London and the South East and generating employment in the West Midlands.</p>	<p><b>Leadership</b></p> <p>The retirement of Mark Rogers, the Chief Executive was announced on 19 February 2017. This followed the announcement of the retirement of Peter Hay, the Strategic Director for Place on 25 January 2017.</p> <p>The Council has an ambitious change programme which is essential to it delivering its financial and operational challenges. Effective leadership is essential to achieving this.</p>	<p><b>CIPFA Code of Practice 2016/17 (the Code)</b></p> <p>Changes to the Code in 2016/17 reflect the aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The changes effect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement as well as the segmental reporting disclosures and new expenditure and funding analysis note. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p>
<p><b>Sustainability and Transformation Plan</b></p> <p>Local government and Health partners continue to face enormous challenges. There has been no indication that the social care funding crisis will be addressed centrally, generating financial pressures to ensure planned care strategies and partnership working outcomes are delivered.</p> <p>The Greater Birmingham and Solihull STP covers a population of 1.8 million people. It maps a collaborative path between Birmingham City Council, Solihull MBC and NHS partner organisations to deliver better health and social care. The Plan focuses on three 'drivers' for change:</p> <ul style="list-style-type: none"><li>• Insufficient system wide focus on use of resources</li><li>• Too much care that can be delivered elsewhere is provided in a hospital setting</li><li>• Variation in clinical services</li></ul>	<p><b>Financial Challenge</b></p> <p>We issued a statutory recommendation due to the under delivery of savings plans in 2016/17 that stresses the need to effectively plan and manage savings and the impact on the Council's reserves.</p> <p>The draft Business Plan 2017+ shows a savings requirement of £71 million in 2017/18 and a planned use of reserves of £41 million. Financial Plans have been scrutinised by an independent financial review team. The Council has strengthened its implementation planning for the delivery of the savings programme, and has introduced more robust monitoring and governance arrangements.</p> <p>The Improvement Panel's latest letter to the Secretary of State comments on both the credibility and deliverability of the Council's financial plans. It concludes that credible plans are in place, but some plans are ambitious and there are high risks to their deliverability.</p>	<p><b>Earlier closedown</b></p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p> <p>As the earlier closedown of the accounts is managed the preparation of the financial statements will include a greater reliance on estimation.</p> <p>The Council's Financial Reporting Team have delivered significant improvements in both the timeliness and quality of accounts delivery. We are continuing to support them in making further improvements to achieve the new deadline.</p>
Our response		
<ul style="list-style-type: none"><li>• We aim to complete all our substantive audit work of your financial statements by 31 July 2017.</li><li>• As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.</li><li>• We will review the Council's progress in managing its responsibilities for public health and how it is working with partners, as part of our work in reaching our VFM conclusion.</li><li>• We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.</li></ul>		

# 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 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. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £43.19 million (being 1.5 per cent of gross revenue expenditure excluding significant one-off transactions). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

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 £2.16 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
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
Related party transactions	Due to public interest in these disclosures	Materiality is set at £100,000 however errors will be assessed individually, with due regard given to the nature of the error and its potential impact on the materiality of the other party.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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> <p>Therefore we do not consider this to be a significant risk for Birmingham City Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</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>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation.</li><li>• Review of unusual significant transactions.</li></ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

# Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<b>Going concern</b>	You are facing significant financial challenges and have forecast a significant deficit position for 2016/17. This raises doubts over the completeness and adequacy of the going concern disclosures in the accounts, particularly in relation to material uncertainty.	<p><b>Work to be completed:</b></p> <ul style="list-style-type: none"> <li>Review of management's assessment of going concern assumptions and supporting information, e.g. 2016/17 and 2017/18 budgets and cash flow forecasts and associated sensitivity analysis.</li> <li>Review of completeness and accuracy of disclosures on material uncertainties in the financial statements.</li> </ul>
<b>Valuation of property, plant and equipment</b>	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<p><b>Work completed to date:</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>Review of management's processes and assumptions for the calculation of the estimate.</li> <li>Review of the competence, expertise and objectivity of any management experts used.</li> <li>Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</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>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)



## Significant risks identified (continued)

Significant risk	Description	Audit procedures
<b>Valuation of pension fund net liability</b>	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>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.</li> <li>We will review 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.</li> <li>We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>
<b>Changes to the presentation of local authority financial statements</b>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<b>Work planned:</b> <ul style="list-style-type: none"> <li>We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

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# Other 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 or other risk 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.

Reasonably possible risks	Description of risk	Audit procedures
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	<b>Interim work:</b> <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> <b>Further work planned:</b> <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>
<b>Property, plant and equipment</b>	Risk that property, plant and equipment activity is not valid	<b>Interim work:</b> <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> <b>Further work planned:</b> <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>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

## Other 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 or other risk 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.

Reasonably possible risks	Description of risk	Audit procedures
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	<b>Interim work:</b> <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> <b>Further work planned:</b> <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 2016/17 and comparing to 2015/16 to determine whether substantive testing required.</li><li>• Review 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>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them."  
(ISA (UK and Ireland) 315)

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# Other risks identified (continued)

## 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 sections but will include:

- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable 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
- Schools balances and transactions
- New note disclosures
- 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

# Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 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[/s]	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
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
PETPS	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
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

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# Value for Money - Update

The Value for Money plan was presented to Audit Committee in January 2017. This identifies six risk areas that we will carry out further work on: Budget Delivery and Reserves Management, Services for Vulnerable Children, Improvement Panel, Management of Schools, Working with Health Partners and the Future Operating Model.

Since completing our initial risk assessment the draft Business Plan 2017+ has been published. The Plan is based on delivering changes to the way services are delivered. The programme includes a number of key projects which are significant in both scale and financial terms. A preliminary review of the plan has identified some risk areas which have also been considered in the report of the Independent Financial Review Team.

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.

We will review the project management and risk assurance frameworks established by the Council in respect of the more significant savings projects, to establish how the Council is identifying, managing and monitoring these risks.

We have identified the following schemes for further review of proposals and project delivery.

- Corporate Resource Directorate -Reduction in ICT Spend
- People Directorate – Integrated Community Social Work
- People Directorate – Joint Working with the NHS
- Economy Directorate – Highway's Maintenance Savings
- Place Directorate – Support to the Arts and Borrowing from Reserves
- Corporate Directorate – Future Operating Model
- Corporate Directorate – Workforce Proposals

# Responding to our Statutory Recommendations

Our 2015/16 Annual Audit Letter included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014. The Council considered this recommendation, and their response, at the Council meeting on 10 January 2017. The Council is in a challenging position and we have made it clear in our statutory recommendation the actions needed. We will review your progress with delivering these and report on progress to the Audit Committee. We will continue to meet frequently with senior management, members and the Improvement Panel to ensure that we understand the key issues you are tackling and the progress you are making.

We summarise below the Council's response to date.

Recommendation	Audit Update
Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17.	<p>The Council have recognised and reacted to the problems identified in relation to the major deliverability issues of a number of savings in the 2016+ Business Plan. Revised governance in relation to budget monitoring has been implemented with a monthly meeting of the Budget Board made up of the Corporate Leadership team and jointly chaired by the Chief Executive and the Deputy Leader. The Council is in a challenging position and we have made it clear in our statutory recommendation the actions needed. Action also needs to be taken as a priority to reinforce senior management capacity following recent changes subsequent to the issue of our recommendations. The departure of the Chief Executive is an immediate concern for the effectiveness of these arrangements.</p> <p>We will review these arrangements as part of our value for money conclusion work.</p>
Demonstrate that the Council is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+, by: revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and ensuring that all savings plans are assessed for both lead time to implement and delivery risk.	<p>The impact of non delivery of savings and increasing pressures are being addressed as part of the 2017+ Business Planning process. An independent review was undertaken and the plan has been further amended in light of the comments received. However we will continue to monitor the revised savings plan to ensure that the deliverability of projects is in line with evidence of project planning.</p>

## Responding to our Statutory Recommendations (continued)

Recommendation	Audit Update
<p>Re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.</p>	<p>The Council have revised and planned for the impact of the 2016/17 budget pressures. There is a planned use of reserves in 2016/17 of £35m. This will come from Capital Fund (£32m) [Earmarked Reserve “Sums set aside to finance Capital Expenditure” (balance of £81m at 31 March 2016) and Organisational Transformation Reserve (£3m) [Part of overall General Fund balance (balance of £111m at 31 March 2016)].</p> <p>The planned use of reserves in 2017/18 is £46m, £28m from Capital Fund, £13m from Organisational Transformation Reserve, and £5m from capital receipts.</p> <p>We will continue to monitor and review these plans to ensure pressures from the 2017/18 budget savings are being achieved.</p>



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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance 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 will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the 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.

# 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 in the table below:

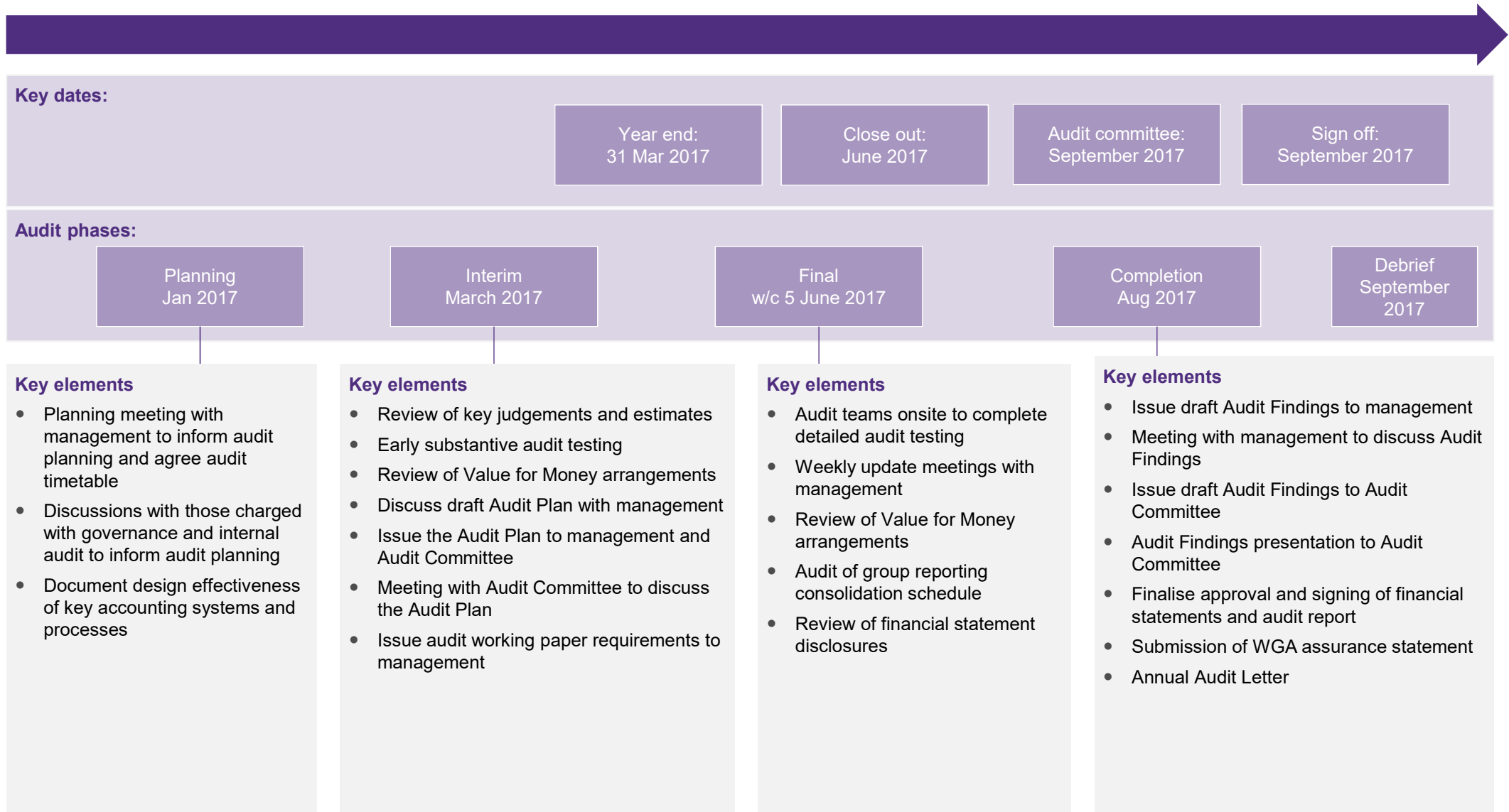
	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>We have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach</p>
<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>	<p>Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements</p>
<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 and we are awaiting responses to the issues raised.</p>	<p>Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
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 Operating Expenses, Employee Remuneration, and Property, Plant and Equipment.</p> <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>Our work has not identified any weaknesses which impact on our audit approach. We will update our walkthrough of Property, Plant and Equipment after year end as a number of controls are year end controls.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

# The audit cycle

## The audit timeline



# Audit fees

## Fees

	£
Council audit (as per PSAA scale fee)	314,168
<b>Audit of subsidiaries</b>	
Acivico Limited	38,000
Innovation Birmingham Limited	22,800
NEC (Developments) PLC	35,000
PETPS (Birmingham) Limited	7,600
Finance Birmingham Limited	6,900
Marketing Birmingham Limited	13,900
<b>Subsidiaries total</b>	<b>124,200</b>
Housing Benefit Grant Certification (as per PSAA indicative fee schedule)	17,594
<b>Total fees (excluding VAT)</b>	<b>455,962</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.

# Audit fees (continued)

## Fees for other services

Fees for other services detailed below, 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.

### Proposed fees for other services

Service	Fees £
Audit related services:	
Certification of grant claims (outside PSAA requirements)	16,700
Non audit related services:	
Finance Birmingham – tax advice	1,200
Innovation Birmingham – tax advice	6,400
Marketing Birmingham – tax advice	1,315

Note – tax advice work will only proceed if we are able to confirm that the requirements of National Audit Office guidance on non audit work are met.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

## 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'.

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# Independence and non-audit services

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit 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.



# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

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.psaa.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 CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their 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 communication plan	Audit Plan	Audit Findings
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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