

# The Audit Findings for Birmingham City Council - Addendum

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**Year ended 31 March 2017**

September 2017

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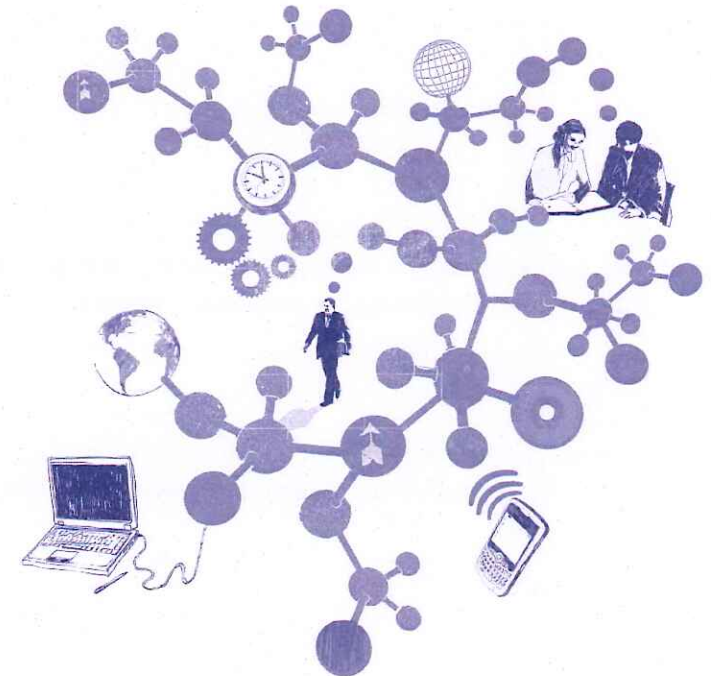
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### **Purpose of this addendum**

This addendum provides the Chairman and Members of the Audit Committee with a briefing of the issues that have arisen since we issued our Audit Findings Report for the Committee meeting on 26 September 2017.

In completing our work we concluded that it was appropriate to reflect the inherent risks relating to equal pay within both our audit opinion and value for money conclusion, a practice we have adopted in prior years.

### **Impact**

Our audit report now includes an Emphasis of Matter paragraph in relation to the Equal Pay disclosure. There is also reference to Equal Pay included within the adverse value for money conclusion.

### **Conclusion**

The Chairman and the Council's Audit Committee are formally informed of the proposed audit report containing an Emphasis of Matter paragraph within the financial statements opinion.

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# Appendix A: Audit opinion

We anticipate we will provide the Council, including the Group with an unqualified audit report for the financial statements and a modified audit report in relation to Value for Money.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

We have audited the financial statements of Birmingham City Council (the "Council") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Interim Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Interim Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Interim Chief Financial Officer, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Council and Group as at 31 March 2017 and of the Council's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law

## Emphasis of matter – equal pay claims

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 1(xd), 2, 3, 6, 16, 18, 19, 32, 33 and H9 to the financial statements concerning the uncertain outcome of claims made against the Council under equal pay legislation. The Council has received a number of claims under the Equal Pay Act and has set aside a provision of £145.2 million which incorporates all claims received and negotiations agreed to 28 February 2017. Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements.

## Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

## Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Council under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

## Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Respective responsibilities of the Council and auditor

The Council is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix A: Audit opinion (continued)

We are required under Section 20(1)(c) of the Act to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Scope of the review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work, as we considered necessary to form a view on whether in all significant respects the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Basis for qualified conclusion

In considering the Council's arrangements for securing efficiency, economy and effectiveness, we identified the following matters:

### *Budget Delivery and Reserves Management including the Future Operating Model and Equal Pay*

The Council's Business Plan 2017+ included the requirement to deliver £148 million of recurrent savings by the end of 2018/19.

The planned delivery of recurring savings is not being achieved, resulting in £14.4 million of the total savings target of £123.2 million in 2016/17 being achieved from one-off or non-recurrent sources. The Council's Corporate Revenue Monitoring report for July 2017 identified that, despite a number of mitigations, £18 million of the total planned savings for 2017/18 will either be delayed or not delivered. In particular, the Business Plan 2017+ included the implementation of the Future Operating Model, an approach to prioritise public facing services, consolidate and optimise support services and bring consistency to the spans and layers of management within the Council, which was expected to save £14.6 million in 2017/18. However, due to significant delays in the implementation of the Future Operating Model, the Council is forecasting that there will be undelivered savings of £15.4 million in 2017/18, rising to £34.2 million in future years.

The settlement of Equal Pay Claims remains an issue for the Council. Uncertainty around the timing and amounts of future claims will have an impact on the Council's reserves management.

These matters are evidence of weaknesses in proper arrangements for sustainable resource deployment in:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

### *Improvement Panel*

The Secretary of State for Communities and Local Government appointed an Improvement Panel ("the Panel") in January 2015 to oversee improvements in the Council's governance arrangements.

The Panel is currently liaising with the Council in respect of matters emerging in relation to the recent waste dispute, and the Secretary of State has written to the Panel requesting an urgent update so that he can consider the next steps for the Council. The Panel was scheduled to meet with the Leader of the Council and the Deputy Leader on 12 September 2017 but the Leader of the Council resigned on 11 September 2017. At the date of issuing our opinion, the Deputy Leader is acting as Leader on an interim basis to provide stability.

This matter is evidence of weaknesses in proper arrangements for informed decision making in acting in the public interest, through demonstrating and applying the principles and values of sound governance.

### *Services for Vulnerable Children*

In May 2014 and November 2016 the Office for Standards in Education (Ofsted) issued reports on its inspections of services for children in need of help and protection, children looked after and care leavers in Birmingham. The reports assessed the services as inadequate and identified a number of serious weaknesses in the Council's arrangements for looking after vulnerable children and young people.

An Ofsted monitoring visit was completed in May 2017 and its subsequent report highlights that the Council requires substantial further progress to address the weaknesses identified.

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

### *Management of Schools*

Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of its improvement plan.

However, as part of the assessment of the improvements to schools governance Birmingham Audit (internal audit) have been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are a range of governance issues to address across the schools visited. 17 of the 97

## Appendix A: Audit opinion (continued)

schools audits undertaken by internal audit in 2016/17 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable).

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities

### **Adverse value for money conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, because of the significance of the matters described in the basis for adverse value for money conclusion paragraphs above, we are not satisfied that, in all significant respects, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Council for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Phil Jones

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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XX September 2017



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