

Annual Governance Report

September 2006



Annual governance report

Birmingham City Council

Audit 2005/2006

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Cabinet is considered to fulfil the role of those

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 29 September 2006 (a draft report is attached at Appendix 5). However as there is a pending objection following the public inspection of accounts we will provide the audit certificate at a later date, on resolution of the objection.

Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is also substantially complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 29 September 2006 (a draft report is attached at Appendix 5).

Financial statements

- 11 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended. As stated at paragraph 9, we aim to issue an unqualified opinion and an audit certificate at a later stage on resolution of the objection work.

Status of the audit

- 12 Our work on the financial statements is now substantially complete. The only work that remains is for us to:
- ensure that agreed amendments have been reflected accurately in the accounts
 - complete our review of secondary statements (statement of total movement in reserves and cashflow statement)
 - review the letter of representation submitted to us by Cabinet
 - review consistency of the Council's Whole of Government Accounts' consolidation pack with the financial statements
 - confirm the Statement of Internal Control reflects our understanding of the Council's key issues
 - investigate and resolve the pending objection as stated at paragraph 9

Matters to be reported to Cabinet

- 13 We have the following matters to draw to Cabinet's attention.

Auditor's report

- 14 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Adjusted misstatements

- 15 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. These adjustments have been made to the accounts approved by Cabinet on 26 June 2006. We therefore draw your attention to the list of material misstatements that management has adjusted below. A complete listing of all amendments has been provided to officers.

Adjusted misstatements in the financial statements

- 16 Listed below are the material adjustments required to the accounts as agreed with officers. None of these adjustments have resulted in any change to the in year surplus as reported to Cabinet on 26 June 2006.
- 17 During the year the NEC's assets were revalued as required by local authority valuation regulations. The revaluation was correctly included in the group accounts. However, due to an administrative error, the revaluation of £751m was also included within the Council's own accounts. Officers have now rectified this. There was no impact on the Council's declared surplus for the year.
- 18 Our review of fixed assets showed that they were understated by £194.9m. This was as a result of omission of certain types of revalued housing stock from the statement of accounts.
- 19 Creditors and cash (school balances) were overstated by £37.2m. Reported schools balances of £37.2 m (representing actual bank balances as at 31/3/06) were incorrectly included in cash and creditor balances. The cash book value of schools balances (£22.3m ie net of uncleared cheques) had already been correctly included in the statement of accounts cash balance. However, there is no impact on actual cash holdings as a result of the accounting adjustment required.
- 20 Fixed assets were understated by £28.0m as the fixed asset register had not been completely reflected in the accounts. Some specific property types (such as investment properties and municipal shops) included on the register had not been included in the council's financial ledger.

Qualitative aspects of accounting practices and financial reporting

- 21 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 22 As well as a reduced number of non-material amendments to the draft statement of accounts, we noted significant improvements in the overall quality of most corporate and directorate working papers submitted for audit compared to the previous year, in direct response to our final accounts memorandum for 2004-05. We have worked closely with the closedown co-ordinator during the year to ensure the improvements required were delivered.
- 23 However, two exceptions to this were:
 - Collection Fund - working papers presented were not sufficiently detailed to allow us to progress the audit. Also changes in responsibilities for resolution of queries in this area was not made clear at the start of the audit.

FRS17 (pension disclosure) - working papers presented were not sufficiently detailed to allow us

Matters specifically required by other auditing standards

- 28 Other auditing standards require us to communicate with you in other specific circumstances including:

where we suspect or detect fraud;

where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and

non-compliance with legislative or regulatory requirements and related authorities.

We have no matters which we wish to report to you concerning the above.

Any other matters of governance interest

- 29 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

Table 1 Other matters of governance interest

There are two other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Audit Services report 'Fraud within Social Care & Health Payments - Systems Review' (June 2006). Audit Services identified a number of significant issues, corporate and specific to Social Care & Health, that must be addressed urgently.	We assessed whether appropriate action is being taken to address these issues.	We found that action is currently underway to

Area	Auditor responsibility	Impact
This accords with previously reported findings by Audit Services 514791 Tc8.8723669*-0rea Audito Tw2it		

Use of resources

Value for money conclusion

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The Code requires us to issue a value for money conclusion where we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we map

Use of auditors' statutory powers

- 34 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 3 below.

Table 2 Use of statutory powers

Insert text

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the	

Closing remarks

- 35 This report has been discussed and agreed with the Director of Corporate Finance and Asset Management and will be presented to Cabinet on 25 September 2006 and to the Audit Committee on 26 September 2006.
- 36 Once again the Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

John Gregory
District Auditor

September 2006

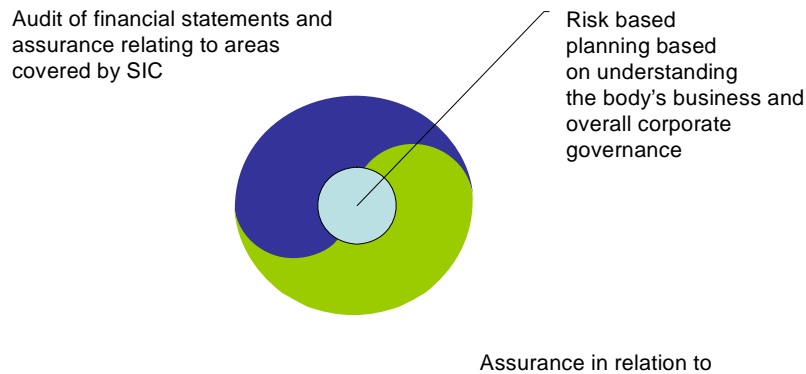
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

Approach to audit of arrangements to secure

Appendix 2 – Audit reports issued

Table 3

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan 2005/06	March 2005	March 2005	The Authority
Use of resources assessment	December 2005	December 2005	The Authority
BVPP report	December 2005	December 2005	The Authority
Annual governance report	September 2006	September 2006	Cabinet/ Audit Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Risk management	May 2006	May 2006	The Authority

Appendix 3 – Fee information

Table 4

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts	450,942	450,942
Use of resources	219,101	219,101
Total audit fees*	670,043	670,043

* The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

I read other information published with the financial statements, and considered whether it is consistent with the audited financial statements. This other information comprises only the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International

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Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in August 2005, in all significant respects, Birmingham City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 20 December 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate