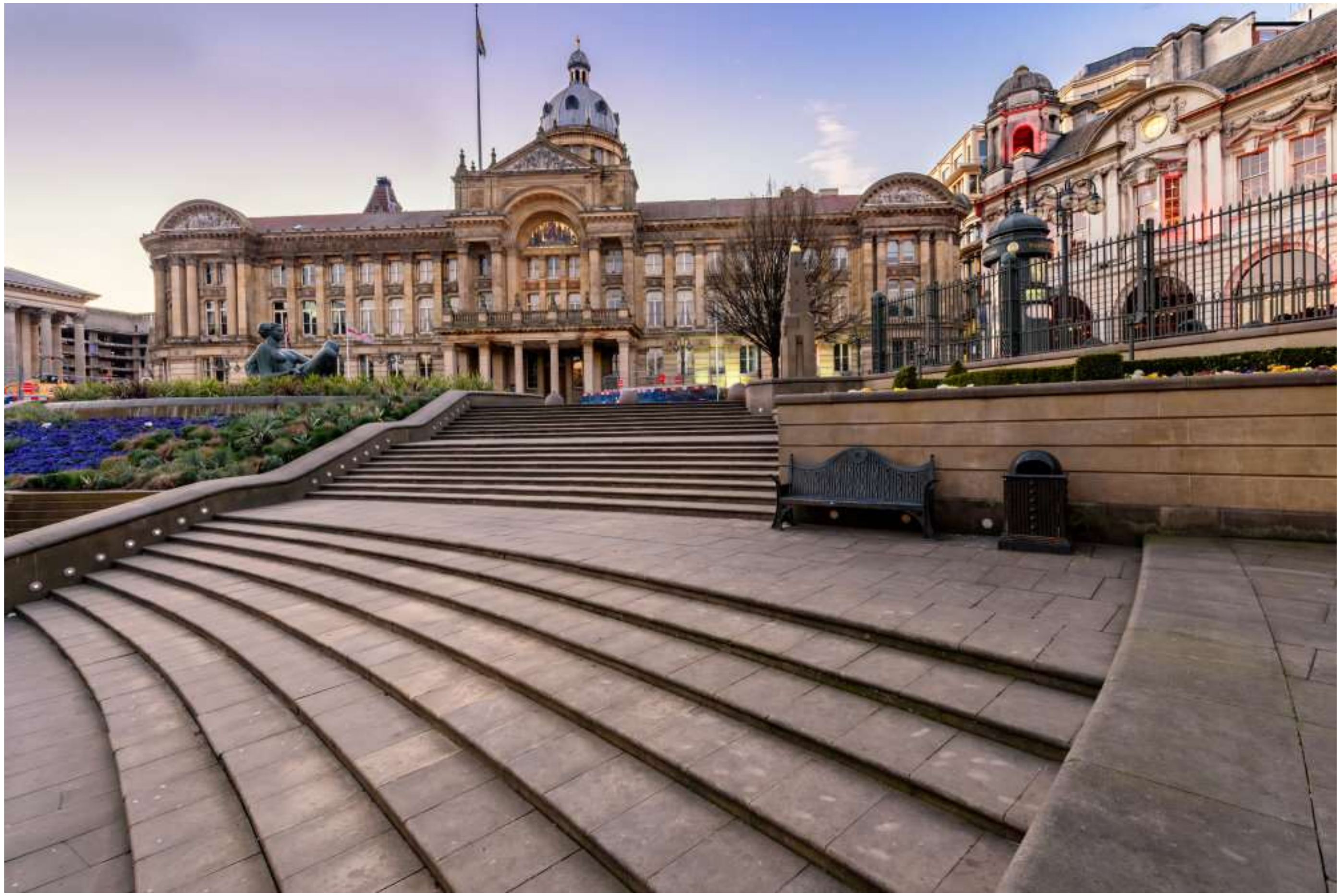
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for Birmingham City Council

Year ended 31 March 2022

28 March 2023



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Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
E jon.roberts@uk.gt.com

Nic Coombe
Senior Manager
E nicola.coombe@uk.gt.com

Kirsty Lees
Manager
E kirsty.lees@uk.gt.com

Will Howard
Assistant Manager
E william.j.howard@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all 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.

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit Committee.

[Key Audit Partner Signature to be added when final report issued]

Name: Jon Roberts
For Grant Thornton UK LLP
Date: 28 March 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been conducted from June to date. Our interim findings are summarised on pages 5 to 30. It should be noted that our audit work is still in progress and that there are some areas of work where findings are still being concluded upon.

Five adjustments to the financial statements have been identified and are anticipated to be adjusted for, which are set out in Appendix C.

There are a further three misstatements identified which the Council does not propose adjusting. The Committee is required to consider the rationale for not adjusting these misstatements and approve the Council's approach.

We have also raised recommendations for management as a result of our audit work to date in Appendix A, as well as following up progress made in implementing recommendations made in prior years in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion subject to satisfactory resolution of the outstanding work, as set out on page 6.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We anticipate that our audit report opinion will be unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements).

1. Headlines

Value for Money (VfM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VfM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to the September Audit Committee in our Value for Money Plan. We expect to issue our Auditor's Annual Report for consideration in due course in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks of significant weakness as follows:

- Legacy of the Commonwealth Games
- Contractual arrangements relating to the highways PFI scheme
- Home to School Transport Service
- Housing demand
- SEND

Our work on these risks is underway and we are liaising with officers to gather evidence in support of the Council's arrangements in respect of the three criteria of financial sustainability, governance and improving economy, efficiency and effectiveness, as well as action taken in response to our recommendations from the 2020/21 Annual Auditor's Report, and in particular those in relation to IT and the implementation of the new Oracle system, given that it has a bearing on our financial statements audit, as well as forming part of our consideration of the Council's arrangements to ensure value for money.

We reported to you in our progress report of 28 September 2022 that we anticipated providing our Annual Auditor's Report no later than the end of February 2023. This has been delayed due to the ongoing financial statements audit , and a revised letter is included within this report. We have also received questions by a member of the public which we are considering as part of our VfM response.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VfM arrangements, which will be reported in our Annual Auditor's report in due course.

Significant Matters

We have not encountered any significant difficulties or identified any significant matters arising during our audit from the work done to date. We do note however, that the implementation of the Council's new ledger, Oracle, has impacted the capacity of Council officers as they deal with audit queries while getting to grips with a new system. We appreciate the co-operation shown by officers in progressing the audit in spite of these challenges.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Birmingham Children's Trust CIC were required. We have had to alter our approach in relation to this work. In our audit plan, as communicated to you on 26 April 2022 we anticipated being able to rely on the work conducted by Crowe UK LLP in obtaining assurance over the figures for Birmingham Children's Trust used in the Council's group accounts in which was completed by Crowe UK LLP. This approach has been superseded as explained on pages 17 and 18 and we are in the process of conducting specified procedures ourselves.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our audit continues to be underway as at the time of writing with some outstanding queries yet to be resolved. The outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 28 March.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted in previous communications, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, including remote access of financial systems, and verifying the completeness and accuracy of information produced and provided remotely by the entity.

The finance team has been helpful in enabling us to gain the assurance that we require for our auditor's opinion on the financial statements.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below.

🔴
- receipt of responses from the Council's internal and external valuers on remaining queries in respect of three assets valued on an existing use basis and our consideration thereof
- completion of specified procedures required for the purposes of the group accounts
- consideration of the impact of emerging equal pay issues on the Council's provision and contingent liability disclosures as well as the commentary in the Annual Governance Statement
- final manager and engagement lead review of all of the above once completed

🟠
- final review of work on payments made and received across the year end

🟢
- receipt of the Council's WGA pack and completion of our procedures thereon (if required)
- receipt and review of the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Status

- 🔴 Significant area of the accounts attracting significant audit effort: high levels of judgement involved
- 🟠 Less significant area of the accounts and audit: medium levels of judgement involved
- 🟢 Low risk area of the accounts and audit: low levels of judgement involved

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Birmingham City Council.

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements	£36.0m	£35.9m	We determined materiality for the audit of the group's financial statements as a whole to be £36m and £35.9m for the Council. This equates to approximately 1.1% of the group's and Council's gross operating expenses. This benchmark is considered the most appropriate because we consider users of a council's financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	£23.4m	£23.34m	We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors: • We have not historically identified significant control deficiencies as a result of our audit work aside from those in relation to IT general controls, which we have designed specific audit responses to address • Audits in recent years have identified material errors • There has been some turnover in senior management and key reporting personnel within the finance function On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 65%.
Trivial matters	£1.8m	£1.795m	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £1.795m, which is approximately 5% of materiality.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement 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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgement applied and made by management and consider their reasonableness with regard to both corroborative and any contradictory evidence that may exist • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <u>Findings</u> The Council processed journals comprising in excess of 3.7m transactions each containing multiple lines of data in respect of the year ending 31 March 2022, with a value in excess of £141 billion. Just 0.4% of these by number occur at year end but they make up nearly 18% of the value, with the majority linked to a handful of users. While we generally anticipate an increase in activity at year end, auditing standards specifically require us to consider year-end journals and therefore we consider them separately. We designed our approach and created targeted tests to mitigate the following risks and control findings from previous years: • our journals testing in 20/21 identified one instance of management override whereby a junior member of staff was instructed to incorrectly code a low-value transaction at year-end for the purposes of efficiency during the Council's closedown period. • senior officers can initiate journals which are then posted by a colleague • senior officers have access to the ledger, though historically they do not use this access to post journals • as highlighted by our previous IT audit reports, there are a large number of users with multiple accounts and some users with unnecessarily high levels of access (firefighter and DEBUG accounts). Over 1 million journals have posted by such users comprising 3.1m transaction lines. We have analysed this data to identify those which we consider to be unusual and which warrant further work. Additional focussed work was undertaken specifically considering those transactions that are impacted. Our detailed testing of individual journal transactions identified as being unusual through our risk-based analysis, including the additional work referred to above, has not identified any findings to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition ISA (UK) 240 Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Birmingham City Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of public sector bodies, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council.	Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council and Group's revenue streams, as they are material. We have: Accounting policies and systems • evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Council's business processes associated with accounting for income Fees, charges and other service income • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation and non-specific grant income • applied substantive analytical procedures to income for national non-domestic rates and council tax Other grants • sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year. Findings We have no findings to bring to your attention from the work done.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition: Public Audit Forum (PAF) Practice Note 10 In line with the Public Audit Forum Practice Note 10 (PN10), in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Birmingham City Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have: • updated our understanding of the Council's business processes associated with accounting for expenditure • agreed, on a sample basis, operating expenditure, housing benefit expenditure, agency costs and year end creditors to invoices and cash payment or other supporting evidence • performed substantive analytical procedures on the Council's employee remuneration costs and depreciation We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. Findings Testing of two sample items within creditors identified an error in the double entry used to record a wider transaction that included these two items. The journal was removing grant reimbursements and cash balances associated with the grant as the Council is acting as an agent, and therefore the entry was to remove these transactions on the grounds that they should not feature in the Council's financial statements. This is an appropriate conclusion to reach but the accounting entry to effect this was made incorrectly. The adjustment will decrease debtors by £4.6m with a corresponding increase to creditors. We note that work in respect of this risk is not yet complete as there are queries that are yet to be resolved with the Council in respect of our cut-off testing (ensuring transactions have been accounted for in the correct accounting period by testing transactions occurring across the year end), due to a request from officers to delay this work, pending bedding in of the new ledger. As well as there being evidence for some queries outstanding, we have also identified errors in our testing of expenditure completeness where transactions relating to the 2021/22 financial year have not been accounted for in the same. The absolute value of these errors is £15k, which when projected across the population sampled, gives rise to a misstatement which is above our tolerable thresholds. We have therefore extended our testing in this regard, and are not in a position to conclude against this risk at the time of writing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability (IAS 19 estimate) The Council and group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report <u>Findings</u> The initial actuary report received from the Council's actuary did not show the split between the Local Government Pension Scheme (LGPS) and the Teacher's Pension scheme (TPS). The actuary's report states that unfunded obligations are £62.8m for LGPS and £50.1m for TPS: as both of these figures are considered material, we would expect the opening and closing balances and any material movements to be separately disclosed within the financial statements. This was discussed with the Council and a revised report received from the actuary. The disclosure in the financial statements will be updated in this regard. We have also obtained assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements. The pension fund auditor identified through his work, that an incorrect rate of return was applied in the actuary's calculations which necessitated the re-running of the IAS19 report, and a revised actuarial report was made available in November 2022. Further, we note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £94m, which was then extrapolated to a total of £119m. The Council's share of this total estimated £119m error is approximately £32.4m. This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility. An adjustment has been made for quantifiable elements of this issue in the Council's financial statements, increasing the Council's share of the Pension Fund's assets by £26.1m and recognising the impact on the Council's Pension Reserve. There is no impact on the Council's General Fund balance. A similar adjustment was made to the 2020/21 accounts of £20.9m.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of property plant and equipment: land and buildings The Council revalues its land and buildings on a rolling, five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's and group's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets. For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset. We have therefore identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluated the competence, capabilities and objectivity of the Council's internal valuer as the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that theses are not materially different from current value at year end. <u>Findings</u> The Council's property portfolio is large and complex, and a significant level of work is required to gain assurance over the reasonableness of the valuations included in the balance sheet. There are a number of queries that we have asked the valuer to gain assurance over the key assumptions being used to drive the valuations. We have the following issues to report: <u>Uncertainties – movement in assets valued at Existing Use Value (EUV)* between valuation date and balance sheet date</u> Management has assessed potential movement in the value of assets valued at existing use value (EUV) and not revalued in year and determined that there is the potential for a movement of £8.0m, which management does not consider to be material. We agree with the assessment and determination of this figure, which is based on assessing the movement of all relevant assets which have been valued and uplifting the non-valued assets by the same amount. However, we would also add to it a further potential movement which we have calculated to be £5.8m on the grounds that the valuation date is not at year end but on 19 February. This additional potential movement reflects increases in valuation which took place between the valuation date and year end. Uncertainty in relation to potential movement in EUV assets not revalued in 21/22 has been assessed as a potential understatement of £13.8m. We do not consider this to be an error. The purpose of our work is to assess the reasonableness of the Council's estimate and to determine whether the estimate in the financial statements contains a material misstatement. Based on the work we have done we do not consider the estimate to be unreasonable or materially flawed.

Definition of Existing Use Value per the Council's financial statements: *The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.*

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of property plant and equipment: land and buildings continued	<u>Uncertainties – movement in value of other assets between valuation date and balance sheet date</u> The valuation date is as at 19 February and therefore we have assessed the potential movement in value to 31 March 2022 for those assets revalued as part of the rolling programme. We have applied market indices to reflect the 1.5 months between the valuation date and the year end and determined that there is a potential movement of £10.5m for other land and buildings and £2.9m for surplus assets. This is reported as an uncertainty and not an unadjusted misstatement as this informs our consideration of the reasonableness of an estimate, which we consider to be materially correct based on our analysis. <u>Uncertainties – final thoughts</u> Total uncertainty over the assets population given the above work is £27m which is not considered to be material. The net book value of the Council's other land and buildings and surplus assets as at 31 March 2022 is £2.6 bn and therefore the uncertainty represents just 1% of the total which is not considered to be significant. <u>Leases</u> The information from leases is documented in the Council's property management system and the Manhattan system. This is the source data that is provided to the valuer to provide information on tenancies' rents and duration. Management relies on the system to record lease information and we have undertaken specific testing on this data base to provide us with assurance over the accuracy and completeness of the system generated information provided to the valuer. We have no findings to report from this work. <u>Gross internal areas</u> For some of the Council's assets, the floor area is a key determinant used by the valuer in deriving a value. For three of our sampled assets, information in support of the floor area applied is outstanding.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of property plant and equipment: council dwellings The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Birmingham. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms. A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype. The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons. For 8 of these archetypes the Council has determined that the beacon approach is not appropriate and have valued these dwellings on the basis of discounted cash flows. We therefore have identified that the accuracy of the key inputs driving the valuation of Council Dwellings is a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuer's work, the Council's valuer's reports and the assumptions that underpin the valuations • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that theses are not materially different from current value at year end. <u>Findings</u> <u>Archetypes valued on a discounted cash flow basis</u> A number of the Council's HRA dwellings (mainly in tower blocks) are included in the financial statements at a value which is based on forecast cash flows for rental incomes and maintenance spend; giving a total value of £151m. Management has responded well to findings from the previous audit, and has been able to demonstrate that the assumed levels of rental income are reasonable and that other assumptions used to build the valuation models are reasonable. These relate to management costs, bad debt, void rent, discount rate, inflation rate, annual maintenance costs, and term of the discounted cash flow. We have no findings to report from our work on the archetypes valued on a discounted cash flow basis. <u>Uncertainties – movement in value of Council dwellings valuation date and balance sheet date</u> The valuer has conducted a full revaluation of non-DCF Council Dwellings and has undertaken inspections of beacon properties to ensure that the beacons selected are fully representative of the archetype. Management work with the valuer to inform them of any events that have occurred that may affect property valuations. As with other land and buildings, the valuation date for Council dwellings is 19 February and therefore we consider where there is a the potential for material movement between the valuation date and the balance sheet date. The valuer has concluded that the timeframe between these dates is a short enough timeframe such that a material difference is unlikely. Assessments and sources of evidence were considered from market evidence and in particular the Land Registry UK House price index, which showed a 0.5% increase from February 2022 to March 2022: applying this uplift to the value of Council Dwellings of £2,986.2m gives a potential increase of £14.931m. This is reported as an uncertainty and not an unadjusted misstatement as this informs our consideration of the reasonableness of an estimate, which we consider to be materially correct based on our analysis.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation and completeness of the equal pay liability Under ISA (UK) 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 estimate with a high degree of estimation uncertainty gives rise to a significant risk. We identified the valuation and completeness of the equal pay provision as a risk requiring special audit consideration, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to estimate the equal pay provision • reviewed the assumptions on which the estimate is based • assessed the accuracy and completeness of the information used as the bass of estimating the liability, and reperform the calculation of the estimate, on a sample basis where appropriate • confirmed that the estimate has been determined and recognised in accordance with accounting standards • determined how management have assessed the estimation uncertainty <u>Findings</u> Our testing of individual calculations identified a number of errors resulting from manual inputs into the calculations, including: • the use of an estimated interest rate when an actual rate was available • use of an average differential • limitations in the data to determine grade changes in year • formulae error within the calculation working papers • application of a flat 24% tax rate to claims despite HMRC evidence stating that Lunchtime Supervisor roles should have 10%. These issues have been evaluated and are considered to be trivial both individually and in aggregate and therefore no adjustments are proposed. However, we consider that improvements can be made to the preparation of the calculation and have made a recommendation on that basis. Before concluding in respect of this risk we will need to consider events or conditions that could have changed the basis of estimation and the potential impact of any transactions or events after the balance sheet date up to the date of signing of the financial statements.

2. Financial Statements - other risks

Risks identified in our Audit Plan	Commentary
Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. During the course of the three previous audits, there have been instances of expenditure not being accrued for which has led to further testing being conducted to ensure that no material misstatement existed. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention, but not a significant risk.	We have: • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure • tested a sample of balances included within trade and other payables • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. Findings Our findings in respect of this area have already been reported on page 10. We have no further findings to report here.
Oracle system implementation The Council implemented a new ledger by moving from SAP to Oracle Fusion from 7 April 2022. Given the date of implementation, clearly this will predominantly impact the financial statements in respect of the year ending 31 March 2023 but there is also a specific impact on the audit for the year ending 31 March 2022: Management is ensuring that the new ledger can be appropriately mapped to the SAP ledger in order to provide us with assurance over the completeness of expenditure/payables and revenue/debtors, as the transaction listings we will be testing to determine that they have been accounted for in the correct period will come from the new ledger. Additionally, the implementation of a new ledger is a significant change and therefore is likely to lead to workforce pressure around year end that may impact on the 2021/22 financial statements preparation. We have therefore identified this as a risk requiring particular audit attention, but not a significant risk.	Our IT Audit team have reviewed the implementation strategy, and liaised with the finance team, as the third party provider and finance team have undertaken their reviews and reconciliations to ensure all relevant data has transferred completely and accurately. We have proposed, in response to our SAP findings, that we deploy our automated Oracle tool (Fastpath) so that we can get an understanding of the security in relation to privileged access in Oracle. Management requested that this be postponed to the new year, once Oracle had been further embedded. We made further requests in December, January and February for this work to be undertaken, as it is critical that this work is undertaken prior to the 2022/23 year-end so it can be used to inform our 2022/23 audit. This work is now underway. The delays in responding and difficulties encountered in engaging with the Council's IT staff fall within our remit for considering the Council's arrangements for value for money and therefore will be commented upon further in our Annual Auditor's Report. As noted earlier in this report we were asked to defer our cut-off testing pending bedding in of the new ledger and the ability of staff to generate the appropriate reports for us to sample from. This work is underway as at the time of writing, as reported on page 10.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Infrastructure assets The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. The Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code derive from IAS 16 Property, Plant and Equipment. The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance. We will address this matter as part of concluding our 2020-21 audit of the Council, which will then determine the audit impact for 2021-22.	Infrastructure assets includes roads, highways, streetlighting and coastal assets. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks were not assessed as a significant risk at planning stage, but we have assessed that there is some risk of material misstatement that requires an audit response. CIPFA has consulted on adaptations to the Code and guidance on the application of UELs, which we have factored into our response. In order to be able to conclude whether there is a risk of material misstatement our response is that we have: • assessed the risks of material misstatement related to infrastructure assets • updated our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice. <u>Findings</u> We are able to sample additions to infrastructure in the current year to review the basis of asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations but this becomes more difficult in respect of historic infrastructure assets because individual infrastructure assets are not recorded separately on the Council's fixed asset register. The Authority records its infrastructure assets by sub-category in its fixed asset register for each financial year, eg footways 2016/17, kerbs 2018/19. No supplementary data is available to further break down additions to a project or location level. There is currently no de-recognition of replaced components: as such it would appear that cost and depreciation would be overstated, if there was no statutory override to address the situation. Audit firms, practitioners, DLUCH and CIPFA have been in consultation with regard to this national, sector-side issue and a statutory instrument came into force as of 25 December, specifically in relation to local government's treatment of infrastructure assets. These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code).

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Infrastructure assets Continued	The English Regulations apply to statements of accounts for financial years beginning on or before 1st April 2024, and to those statements of accounts which have not already been certified by a local auditor. Of particular note is the following: • when preparing a statement of accounts to which this regulation applies, a local authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets. ie the brought forward figure is considered to be correct. Therefore, based on the statutory override, while we can be content with the gross book value figure brought forward, and also content that any derecognition and replaced component has a relevant amount of £nil, what we needed to be assured over is the amount of depreciation applied in the year. This is driven by the components' useful economic lives and therefore we considered it appropriate for us to focus audit effort on that area in particular. The Council revisited the economic lives applies to its infrastructure assets and based on information readily available from the highways team a revised set of useful economic life to each component (carriageways, footways and cycleways, structures, streety lights and traffic management) has been determined We have reviewed the Council's updated approach in line with evidence provided by the highways team as well as consideration of CIPFA's bulletin *CIPFA Bulletin 12 Accounting for infrastructure assets temporary solution.* The financial statements have been amended in this regard and a revision made to the Council's accounting policy to reflect the application of the statutory instrument. The impact of the application of these revised useful economic lives has been to reduce the depreciation charge in 2020/21 by £1.69m and in 2021/22 by £1.44m. The 2020/21 adjustment is trivial to the 2020/21 accounts as is the 21/22 adjustment to the 2021./22 financial statements. However, in aggregate the difference in depreciation charge is greater than our trivial threshold for 2021/22 and the Council has elected to adjust for both years in the 2021/22 financial statements. We are satisfied with this treatment.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £2,439.6m	As noted in the financial statements, the Council recognises the value of almost 1,350 other land and buildings assets. The valuation approach for other land and buildings is to obtain valuations on the basis of a five year rolling programme, which is supplemented by annual reviews, to reflect significant changes in market value. This results in only a sample of assets being revalued each year. For asset classes that use a DRC valuation (typically specialised assets such as schools), the Council's valuer applies an appropriate index to those properties that don't have a full, detailed valuation performed, to obtain an estimated valuation. A small subset of assets are not valued. The Council considers the extent to which applying the percentage movement in assets that have been valued, would impact those that have not been valued, to ensure that it is not material.	We have: • performed an assessment of management's expert, if used • considered the completeness and accuracy of the underlying information used to determine the estimate • noted that the valuation methods applied are consistent with prior year • considered the consistency of the estimate in how it is applied • reviewed the accounting treatment and appropriateness of the disclosure of the estimate in the financial statements. We identified 56 assets to test with a total value of £513m. These were on the basis of: • 3 assets due to their large value • 6 assets due to changes in assumptions applied compared to the prior year • 28 assets, the year-on-year movement in value for which, was not considered to be in line with expectations, based on information provided by our auditor's expert • 13 assets, the year-on-year movement in value for which, was considered to be in line with expectations, based on information provided by our auditor's expert • 6 assets considered to be otherwise unusual, (eg where valuation basis does not appear to be consistent with the asset description, or where an asset has a closing value, but no opening value, yet does not appear as a capital addition). Findings • One asset was overstated by £171k due to incorrect site area being used. • One asset was overstated by £605k as a building value was applied when it shouldn't have been (as should only have been land). • One asset was overstated by £194k due to an error in the obsolescence calculation • One asset had been understated by £20k as the 80% obsolescence cap had not been applied • One asset was determined to be overstated by £15k due to a difference of 8sqm in gross internal area between valuation and evidence provided.	We consider management's process to be appropriate.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £2,439.6m	Continued	• One asset was understated by £240k due to incorrect pupil numbers being used in the building's modern equivalent asset calculation. • One asset was overstated by £158k due to incorrect floor area being used. • Overstatement of £193k in an asset's land value due to incorrect site area being used and an overstatement of £240k to the same asset's building value due to an incorrect floor area being used. These are all considered to be trivial both individually and in aggregate, (with a net total overstatement of £1.3m) but are noted here to demonstrate that errors continue to be found in the course of our audit of this balance. The recommendation raised in prior year relating to the quality assurance over this process therefore remains extant. There are some uncertainties we have reported on pages 12 and 13, but at £27m, they are not considered to be material. The net book value of the Council's other land and buildings and surplus assets as at 31 March 2022 is £2.6 bn and therefore the uncertainty represents just 1% of the total which is not considered to be significant.	

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Dwellings - £2,986.2m	Council dwellings are subject to a full revaluation every five years, with a desktop review in intervening years. The majority of assets are valued using a beacon approach, where a value is undertaken for the housing stock portfolio based on properties that are a representative sample of the Council's properties across the city. The beacon value is derived from sales of similar, ex Council or comparable properties, suitably adjusted by taking into account information from the land registry and other relevant sources, before being applied to the wider population of properties. In this instance, all beacon properties were revalued at the valuation date. This methodology applies to approximately 48,000 of the Council's Council Dwellings. The Council instructs BPS (Birmingham Property Services, internal valuation team) to undertake the dwellings valuation and then this is outsourced to external valuer Sure Surveyors Ltd, however Azmat Mir (internal valuer) remains the signatory on the valuation report. A discounted cashflow approach is applied to the remaining approximate 11,000 Council Dwellings.	We have: • performed an assessment of management's expert, if used • considered the completeness and accuracy of the underlying information used to determine the estimate • noted that the valuation methods applied (both in respect of the beacon methodology and the discounted cashflow) are consistent with prior year • considered the consistency of the estimate in application of the beacon approach to information made available by our auditors' expert • reviewed the accounting treatment and appropriateness of the disclosure of the estimate in the financial statements. We have no findings to report to you from the work conducted, other than those reported to you on page 14. Bearing in mind our comments there in relation to the estimation process, we consider the process applied to be appropriate.	We consider management's process to be appropriate.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £15.720m	The Council uses its internal value to complete the valuation of properties as at 31 March 2022. 100% of total assets were revalued during 2021/22. The total year end valuation of investment property was £15.720m, a net increase of £10.552m from 2020/21 (£5.168m).	The Council holds only one investment property asset, which is not material to the financial statements, but as the value had more than tripled in value between the prior year and current year it was selected for detailed testing. We have: • reviewed the Council's accounting of the revaluation and confirmed its appropriateness • Assessed management's expert, if used • considered the completeness and accuracy of the underlying information used to determine the estimate • Considered the adequacy of the disclosure in the Council's financial statements We have reviewed the assumptions driving the valuation. The key driver in the increased valuation was due to the previous valuation being undertaken using agricultural land values with a small amount of hope value for an alternative use. In 21/22 the valuer considered the potential site coverage for an employment use and allowed 30% of the uplift from the agricultural land value to reflect planning risk. Based on our review of the methodology and assumptions in the valuation, including consideration of the Solihull Local Plan review (in which area this asset is placed), we are satisfied that this increase in value is reasonable. We have considered any potential movement between the valuation date of 19 February and the balance sheet date of 31 March and are satisfied any potential movement is below our trivial threshold and does not require to be reported.	We consider management's process to be appropriate.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability</td>
<td>
As noted in the financial statements, The Council, and the Council's actuary, follow an agreed and accepted process for completing the valuation, which is consistent across the sector. That is to complete a full, detailed valuation every three years, and then in the intervening years, complete a "roll-forward". This approach means that between full valuations, there is inherently a larger degree of uncertainty in the result. The estimate for the Local Government Pension Scheme liability has been performed by a qualified actuary and is based on the latest actuarial valuation and transaction information from 2021/22.
Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.
</td>
<td>

We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council, Hymans Robertson LLP.
We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation as it applies to Birmingham City Council.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.7%</td><td>2.7%-2.75%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3.2%</td><td>3.15%-3.30%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.2%</td><td>3.15%-43%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.9/21.6</td><td>21.4-24.3/20.1-22.7</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>25.4/23.4</td><td>24.8-26.7/22.9-24.9</td><td>●</td></tr>
</table>

No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
We are content with the adequacy of the disclosure of the estimate in the financial statements.
Upon receipt of the revised actuarial report we reviewed the reasonableness of the Council's share of the pension assets and challenged the actuary as to why the share of assets in their report was different to that calculated by ourselves and also expected by the pension fund auditor. Responses were eventually received to our satisfaction and there are no issues to report from our work.

</td>
<td>We consider management's process is appropriate</td>
</tr>
</table>

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Conclusion
Birmingham City Council	Grant Thornton UK LLP	See detail of findings set out in section 2 of this report.	
Birmingham Children's Trust CIC	Crowe UK LLP	We did not identify any significant risks of misstatement of the group financial statements. A change to our planned approach has arisen as we had originally anticipated using the work of the component auditor. We subsequently identified that the component auditor has been engaged to provide tax and financial statement preparation services to a significant component of the group, being the Birmingham Children's Trust. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton. Whilst Crowe UK LLP was content that it was able to provide the services, under the ethical rules applicable to its audit of the Children's Trust, we identified these services are prohibited under the more stringent Ethical Standard in place for the Group audit. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion.	We are undertaking procedures on the material figures used in the consolidation for the purposes of group accounts, being those in relation to operating expenditure, staff costs, the net pension liability and journals (the latter of which is to mitigate against the presumed risk of management override.) This work is still underway as at the time of writing, though we have no findings to bring to your attention. Birmingham Children's Trust has received an unqualified opinion from its auditors, and while we are unable to rely on their work, we have used the outcome of their audit as part of our risk assessment in considering which areas of focus may be required.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Conclusion
National Exhibition Centre (Developments) Plc	Specific procedures will be completed on these balances by Grant Thornton UK LLP	We did not identify any significant risks of misstatement of the group financial statements, however the company's loan stock is material to the group and the audit team have agreed this balance to supporting evidence.	We have no issues to report.
Other entities	Analytical review performed by Grant Thornton UK LLP	None.	We have no issues to report.

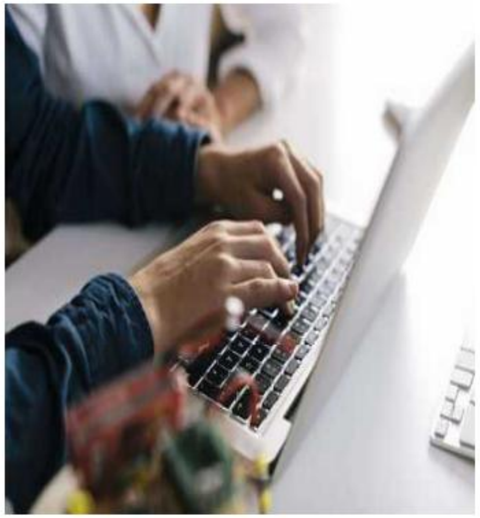
2. Financial statements – other issues

This section provides commentary on other issues and risks which were identified during the course of the audit and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IT control deficiencies To support the audit of the Council's financial statements for year ended 31 March 2021, Grant Thornton's IT Audit team have completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit. This work was followed up as part of the audit for the year ended 31 March 2022. The findings from this work inform our risk assessment and planning procedures, and determine whether, and how much, reliance can be placed on the operation of the Council's systems for the purposes of our substantive testing.	Findings identified are consistent with prior years, in that there are deficiencies relating to security management and individuals' access levels. An updated report has been provided to management for their consideration specifically in relation to the IT audit work conducted. When management responses are received, these recommendations will be include in the final Audit Findings Report. At the time of writing this report, no issues have been identified in the Council's financial statements as a result of inappropriate system access, though we note that work is still underway in this regard as at the time of writing.	As a result of these findings, we have extended the substantive testing being undertaken as part of our substantive work in a number of areas. No issues have been identified impacting our our financial statements audit as a result of these access issues. We also have observations regarding the VfM arrangements of the Council's IT arrangements that we will report to you shortly in our Auditor's Annual Report

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee have not been made aware of any incidents in the period other than those which are reported to Committee from the local counter fraud services. Furthermore no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council on completion of our work. The wording of this letter will be provided to the Committee as a separate agenda item.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those institutions with which it banks, borrows from and invests with. These requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements from the work done to date, but we have noted the more significant amendments to the disclosures identified in Appendix C.
Audit evidence and explanations/ significant difficulties	The level of work required of us in relation to the valuation of Property, Plant and Equipment in particular has led to a significant amount of time and effort on the part of both the side of the audit team and the council's finance team in order to provide us with relevant assurances. The Council can expect the level of scrutiny to continue and we have already begun discussions in respect of the 2022/23 financial statements to make the process more efficient, so that we can avoid incurring significantly additional audit time and effort.

2. Financial Statements - other communication requirements

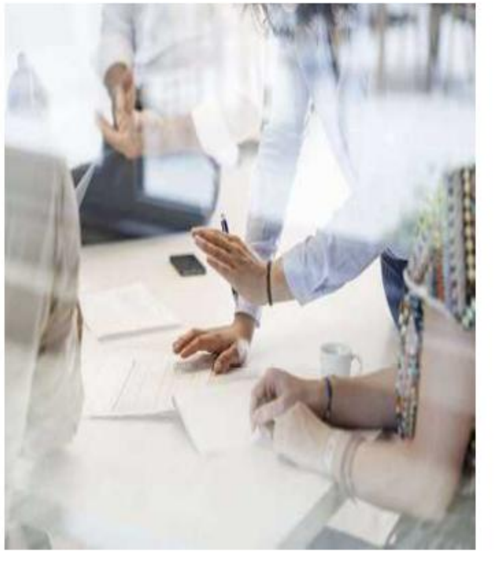
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We note however, that the Annual Governance Statement will need to be updated to reflect any changes or emerging issues as it is required to comment upon events up to the date that the accounts are authorised for publishing. We plan to issue an unmodified opinion in this respect, subject to these updates.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the expected group reporting threshold of £2 billion we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We will complete the WGA work on completion of the financial statements audit.
Certification of the closure of the audit	A certificate to confirm closure of the audit will not be given until our value for money is complete as well as our work on WGA, in addition to our opinion on the Council's financial statements.



3. 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

During the audits of the year ended 31 March 2021 and 31 March 2022, a non-Grant Thornton member firm in the UK has been engaged to provide tax and financial statement preparation services to a significant component of the group. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.

We identified these prohibited services through our group audit oversight. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

Service	Fees £	Threats	Safeguards
Audit related			
Certification of 2020/21 Teachers' Pension Return (November 2021 – January 2022)	7,500	For these six audit-related services, we consider that the following perceived threats may apply: • Self-interest (because these are recurring fees) • Self review • Management	The level of these recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit of £252,309 (AuditorDirectoryforWebsite2021-2022_3-February-2022.xlsx (live.com))and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level. Our team have no involvement in the preparation of the relevant form which is certified, and we do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements. The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagement sin line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
Certification of 2021/22 Teachers' Pension Return (ongoing)	7,500		
Certification of 2020/21 Housing Benefits subsidy (June 2021 – January 2022)	22,500		
Certification of 2021/22 Housing Benefits subsidy (June 2022 – January 2023)	22,500		
Certification of 2020/21 Housing capital receipts (January – February 2022)	5,500		
Certification of 2021/22 Housing Capital Receipts (commencing March 2023)	7,500		

3. Independence and ethics

Service	Fees £	Threats	Safeguards
Audit related (continued…)			
AMSCI reasonable assurance engagements (April 2021)	15,000	Self-interest (because these are recurring fees)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,000 in comparison to the confirmed scale fee and in particular to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Homes England Compliance Checklist (August – September 2021)	6,000	Self-Interest (because this is a recurring fee)	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the confirmed scale fee for the audit of £252,309 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
BEIS grants assurance 2019/20 and 2020/21 (November – December 2021)	20,000	None	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the confirmed scale fee for the audit of £252,309 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
There were no non-audit related services.			

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium ●	Assets Under Construction We have identified several failing items as part of our sample testing of Assets Under Construction but are satisfied from projecting the error rate across the population that the potential for error is less than trivial and therefore does not require reporting in and of itself. However, some of the responses received as part of our testing were indicative of assets under construction being identified as such because a project had been started/commenced and not necessarily because there was an actual asset under construction to account for. We therefore consider that there is the potential for greater error in future, dependant on the values involved if the process is not improved.	We recommend a full review be undertaken (something which the finance team is already planning for 2022/23) of asset under construction balances to ensure they have bene classified and accounted for appropriately. Further that the policy and protocol for this be revisited and consideration given to expensing early costs rather than capitalising if the criteria for capitalisation cannot be fully evidenced. Management response Clear guidance and protocols for AUC accounting will be produced and a review of the AUC balances will take place to ensure they are correctly classified and accounted for.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low ●	**Exit Packages** The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. We identified two instances from our sample testing whereby the disclosure in Note 44 was based on estimates to be paid, rather than actuals paid. The error is trivial and would not affect the disclosures within the financial statements.	We recommend that redundancy payments made after the initial redundancy payment should be reviewed to allow consideration for any adjustments in payments to be recorded in the event of under or overpayments having occurred. **Management response** Consideration will be given to undertaking an identification of any adjustments made in the following accounting year.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Birmingham City Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report along with 13 recommendations rolled forward from prior periods. We have followed up on the implementation of the 4 new recommendations as well as those from earlier audits which were reported as still to be implemented in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Equal Pay Provision Our testing of management's calculation of the equal pay provision identified a number of errors resulting from manual inputs into the calculation. We have gained sufficient assurance that these errors did not lead to a material misstatement of the estimate.	We recommended that the Council looks to reduce its reliance on manual processes, or where this is not possible ensure that sufficient reviews are in place to reduce the risk of errors. Management responded that a less manual process would be an improvement, and consideration will be given to this, however the impact will be immaterial as demonstrated by the audit testing. Management will review opportunities for automation In proportion to the greater accuracy achievable. Findings have recurred in the current year audit and therefore we have rolled forward our recommendation.
✓	Accounting for revaluations Our testing of a sample of the Council's revaluations of land and buildings assets identified instances of capital transactions which involved splitting or combining assets not being accounted for correctly due to limitations of the Council's fixed asset register. We gained sufficient assurance that the impact of these issues were trivial for the 2020/21 financial year, but this could be a bigger issue if there were more or larger assets involved.	We recommended that the Council implement a formal approach to correctly accounting for these types of transactions to avoid similar issues arising in future years. We have not identified any instances of this finding recurring and therefore consider the recommendation to be addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Assumptions used in the discounted cash flow forecast used to value dwellings** A number of the Council's HRA dwellings (mainly in tower blocks) are valued using a Discounted Cash Flow (DCF) approach. When we challenged the Council's initial valuations, management were unable to support the levels of maintenance spend assumed in the forecasts, or how that spend was phased over the period of the forecast. This resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million.	We recommended that the Council ensures that in future years the inputs into the DCF models are reasonable and supportable. This finding is considered to have been addressed.
x	**Occurrence and completeness of expenditure** Of the errors identified in relation to the occurrence and completeness of expenditure in the Council's 2020/21 financial statements, the majority of issues related to information provided to the Council from schools. We have gained sufficient assurance that these errors did not lead to a material misstatement of the financial statements, but there is scope for larger errors to arise due to incorrect or incomplete information being provided to the Council.	We recommended that the Council issue further guidance to schools on the information that they require, and implement a process to satisfy itself that the information received is accurate and complete. This finding has recurred and therefore we have rolled forward our recommendation for continued consideration.
✓	**Accruals policy** We are aware that in order to focus attention on the more significant items of income and expenditure at the end of the financial year, finance staff were instructed to focus efforts on items over £5,000. This guidance was not formally implemented as a change in accounting policy, and the Council has been unable to demonstrate that such a de minimis threshold would not cause a material misstatement if it were implemented across all transactions. Our testing of the completeness of income and expenditure accruals has not identified unusual levels of omissions below this threshold, and we are satisfied that there is not a material misstatement of the 2020/21 financial statements as a result of this guidance.	We recommended that the Council decide whether or not to implement a de minimis policy for year-end accruals, in order to avoid confusion on the part of finance staff. If such a policy is considered appropriate, it should be supported by a full assessment of the risk of material misstatement as a result of its implementation. A de minimis policy has not been applied and therefore the recommendation is considered closed, but if in future the Council apply such a policy, we would expect the above assessment to be undertaken.

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Terms of engagement with HRA valuer We identified that the valuer's terms of engagement for the HRA valuations had a section specifically in relation to the methodology to be used for the valuation of dwellings, but that the only methodology referenced in this was the beacon property method. This is the same in other related documents (instructions, valuation certificate) where no reference is made to discounted cashflow (DCF).	We recommended that the Council reviews the instructions and terms of engagement with the valuer to ensure that they properly reflect the work that is required. We considered that it would be appropriate to include reference to the option to use a DCF methodology and to explicitly state when this methodology should be used and why. This has been addressed and we consider the recommendation to be closed.
WIP	Infrastructure Through work performed prior to the statutory instrument coming in to force at the end of 2022, we identified that the Council's fixed asset records do not contain sufficient detail to enable them to assess the condition of individual assets, or determine enhancements made to individual assets. We were satisfied that this would not lead to a material misstatement of the 2020/21 financial statements due to the statutory override, however this override is not a permanent solution.	We recommended that the Council reviews its records with a view to improving the information held on infrastructure assets. As this is a live issue that has only recently concluded, the mitigation of this risk is a work in progress, which we will follow up as part of our 2022/23 audit.
x	Related party transactions Our work in relation to the Council's Related Party Transactions disclosure identified several instances of interests that were not declared by members or officers, and that were subsequently not identified by the Council's procedures. We are satisfied that this does not lead to a material risk of omission or misstatement in the financial statements, however the Council should be aware of all of its related parties to ensure that any transactions with such entities are treated appropriately.	We recommended that: 1. Additional checks are performed by the Council to confirm the completeness of the declarations received. 2. Declarations should be requested from all senior officers, even those in short-term posts. 3. Member declarations should be updated when a member's interests change, and at least annually. We have identified similar findings in the current year audit, and therefore have rolled forward this recommendation.
WIP	Historic balances in debtors and creditors listings We have identified instances of debtor and creditor codes containing historic and unmatched entries (ie entries where the debit doesn't exactly match the credit so both entries remain active in the system). We consider that the existence of these balances must make it difficult for the Council to properly monitor its debtors and creditors.	We recommended that an exercise is completed to review these historic balances and remove them where appropriate so that the Council's data can be used for its required purpose. There still appears to be instances of unmatched entries and therefore we consider this recommendation to be a work in progress for the Council to consider as it continues to implement and bed in its new ledger.

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	MRP in relation to highways PFI assets During the completion of our expenditure testing, we identified a transaction transferring costs between directorates on the face of the CIES, which related to the MRP charge on the Council's highways PFI assets. We have been able to gain a full understanding of the sequence of transactions that result in this adjustment in the CIES being required, and we are satisfied that the underlying accounting results in the correct treatment in the financial statements. We consider that the basis for these transactions, which appears to be driven by management accounting and the Council's budget process, is overly complex.	We recommended that the Council reviews the accounting in question and considers whether there is a more straight-forward approach to achieve the same results. This finding has not recurred in the current year and therefore we consider this recommendation to be closed.
✓	Pensions data provided to the actuary During our work to assess the accuracy and completeness of the information provided to the actuary in 2019/20, we identified that the data initially submitted for April 2019 did not agree to the Council's payroll records. There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities. This was later corrected by the Council in a subsequent data submission to the actuary. We did not identify any recurring issues in 2020/21 but did identify that an element of the Council's liability had been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted.	The same error has not recurred but we did identify that March 2020 figures were used in the pension return submission rather than March 2021 figures. The impact of this error was below our clearly trivial threshold. Recommendation considered closed, given that the impact was trivial.
✓	Intra-group consolidation adjustments After preparation of the financial statements, the finance team identified in 2019/20 that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements. We recommended in our 2019/20 audit that management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit.	Testing of the Council's consolidation process in 2020/21 identified a material error in the treatment of the Birmingham Children's Trust pension reserve. This is a reduction in the number of errors identified in the previous year, indicating that improvements have been made to the process. In 2021/22 an amendment has been made to the financial statements to correct erroneous double counting in short term debtors and creditors. At £1.5m the amount is trivial, but management have stated that they will make the adjustment. Given the continued direction of travel as part of the consolidation process, leading to one trivial amendment, we consider this recommendation to be closed.

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Heritage asset valuations The Council's Thinktank heritage asset has not been formally valued for a number of years; the figure used in the 2019/20 financial statements was based upon information compiled by the Council's insurance team. There is a risk that this valuation is not reflective of the asset's actual value. This asset is above our clearly trivial threshold but does not exceed our performance materiality.	No valuation was performed in 2020/21 or 2021/22. Management's assessment is that the insurance valuation used remains appropriate.
superseded	Open purchase orders in the general ledger During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes. We recommended that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year.	We noted in the prior year that progress has been made to reduce the number of historic purchase orders that are open in the general ledger, but there were still a significant number at 31 March 2021. Given the move to Oracle we consider that this recommendation has been superseded.
X	Under-accrual of expenditure Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing had to be performed.. In previous years, similar issues around the completeness of expenditure had been noted. The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future.	Testing of a sample of transactions after 31 March 2021 identified a small number of omitted items. There is still room for improvement in this area. Testing of a sample of transactions after 31 March 2022 identified a small number of omitted items, specifically in relation to schools. Therefore this recommendation is considered extant.

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Errors noted in property valuations In previous years' audits we identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation. Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved.	The quality assurance process has significantly improved, such that we are finding far fewer errors than previously. However, there is still significant audit time and effort spent gathering evidence in support of the key assumptions that the valuer applies, and we would therefore recommend keeping this open, so that the upkeep of evidence in support of the valuation process continues to be improved.
X	Multiple accounts assigned to a single user We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighter ID purposes, it appears that some are unnecessary. Management should consider which users need multiple accounts within SAP and remove access to those where this function is not required.	We reported in the prior year, that although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months. It remains the case that no actual instances of inappropriate use of that access have bee identified in respect of the current year audit, but we recommend keeping this action open, such that it can be considered in the future year as part of our review of Oracle.
X	General IT controls As part of our review of IT controls, we identified an excessive number of users with inappropriate access. The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators. Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only.	We reported in the prior year, that although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months. It remains the case that no actual instances of inappropriate use of that access have bee identified in respect of the current year audit, but we recommend keeping this action open, such that it can be considered in the future year as part of our review of Oracle.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

Adjusted misstatements identified from the work done to date are set out below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Creditors journal misposting error Testing of two sample items within creditors identified an error in the double entry used to record a wider transaction that included these two items. The journal was removing grant reimbursements and cash balances associated with the grant as the Council is acting as an agent, and therefore the entry was to remove these transactions on the grounds that they should not feature in the Council's financial statements. This is an appropriate conclusion to reach but the accounting entry to effect this was made incorrectly. The adjustment will decrease debtors by £4.6m with a corresponding decrease to creditors.	-	DR creditors 4.6 CR debtors (4.6)	-
Consolidation of intercompany transactions with Acivico - GROUP ACCOUNTS We have identified that the reduction in Group ST Debtors/Creditors is understated by £1.5m due to double counting in the consolidation exercise. This is below our trivial level and therefore would not usually be reported, but management have stated that this adjustment is being made therefore it is noted here for completeness. There is a nil impact on the SoFP.		-	-
Error noted by the Pension Fund audit team – known time lagged error We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a £94m quantifiable understatement of level 3 investments, which was then extrapolated to a total potential error of £119m. An adjustment has been made for the Council's share of the quantifiable error, being £26.1m.	CR return on assets (within OCI) (26.1)	DR net pension assets 26.1	(26.1)

C. Audit Adjustments

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Revised actuarial report for rate of return issue A revised actuarial report was issued in November 2022, which corrected an error in the rate of return used in the original actuarial report.	CR return on assets (within OCI) (31.7)	DR net pension assets 31.7	(31.7)
Infrastructure The Council has revisited and reviewed the useful economic lives (UELs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UELs going forward has been established. The impact of these revised UELs is to reduce the depreciation charge applicable to 2020/21 and 2021/22 by £3.1m. We have reviewed the calculations and determined the impact to be £3.3m but are satisfied that this difference is trivial. The Council has elected to adjust for both years in respect of the year ended 31 March 2022.	CR depreciation 3.1	DR infrastructure assets 3.1	3.1
Overall impact	(£54.7)	£54.7	(£54.7)

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit.

Disclosure omission/misstatement	Adjusted?
Note 20 (Defined Benefit Pension Schemes) is to be split out into the different schemes; LGPS funded; LGPS unfunded and Teachers' Pensions in line with the revised actuary report.	TBC
Note 22 PPE Issue identified in relation to AUC transfers in year to REFCUS. In year REFCUS spend will be reversed and schools processed as disposals when transferred to academies. This relates to one school whereby Turves Green was incorrectly classified within AUC opening balances because the asset was ready for use in 2020/21 and therefore should not be within AUC opening balances.	TBC
Note 22 - Capital Commitments Per the CIPFA Guidance Notes, this note should contain a 'Similar commitments as at 31 March 2021' line for the major commitments - this is £862m.	TBC
Note 25 Short Term investments Management have identified that £74m of DMO investment is incorrectly classified as Money Market Funds. This will be reclassified within the note to 'Other'	TBC
Note 30 Provisions Equal Pay provision movements need to be shown gross rather than net.	TBC
Note 37: Financial Instruments During the testing of the 'Fin Liabilities' of Financial Instruments, we noticed that the 'Long-term loans from PWLB' contains both long term and short term balances therefore the description was inconsistent. The reference to 'long-term' is to be removed.	TBC
Note 37: Financial Instruments Investments in subsidiaries, associates and joint ventures - Per Code para 7.1.2.25, excluded from the scope of IFRS9, and so should not be in this note. To be reclassified to Investments that are not financial instruments.	TBC

C. Audit Adjustments

Disclosure omission/misstatement	Adjusted?
Note 37: Financial Instruments The Council will amend the accounts to include the following disclosure "As part of the Highways PFI settlement arrangements with Birmingham Highways Limited (BHL), the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum. It is expected that the value of the loan will only be recognised towards the end of the Highways PFI contract in June 2035 and will be dependent on the successful restructuring of the project, the continuance of the PFI contract and the successful performance of the contract over the remaining term."	TBC
Note 37: Financial Instruments Shares in companies - long term & Loans to organisations for service purposes : The audit team challenged why this is disclosed as Level 3 as it was not clear why Level 3 would be appropriate. Management's response is that there is no observable market for these assets and the valuation been derived from the Council own data adjusted for other reasonably available information and on that basis, it is believed that level 3 better reflects the valuation technique used in measuring the fair value of these assets. We have reviewed the workings for the fair value of these assets and confirm that the Council have completed a discounted cash flow using publicly available discount rates. We disagree however, that this would be level 3 in the hierarchy and consider that level 2 would be the correct designation. The Council is not amending the financial statements in this regard.	X
Note 38: Financial Instruments There is a disclosure error within Note 38 in the draft accounts. It states 'All trade and other payables are due to be paid in less than one year' although there is £0.5m sat in LT creditors on the balance sheet. Amendment to be made to add the phrase "except for £0.5m LT creditors".	TBC
Cash flow statement misstatements due to formula errors and figures not being updated from PY. **Note 34** - Purchase of property, plant and equipment, investment property and intangible assets will be amended by £57.9m to £409.5m. **Note 35** - Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts by £39.4m to £70.7m **Note 36** - Increase/(Decrease) in Creditors will be amended by £18.5m to £40.6m	TBC
Group Note G4 - No material differences to Council note, therefore not required. Note G7 and G8 - No material difference between Council and group short term debtors and creditors balances and disclosure notes, therefore the group note should be removed. Note G10 - No material differences to Council note, therefore not required. Notes G12 G13 G14 - No material differences to Council notes, therefore not required. Management are electing to retain these notes, even though they are not required, as they contend that it helps the reader more fully understand the group's position.	X
Note 31 **Contingent Liabilities and Contingent Assets** Pt. 4 i.e., disclosure pertaining to Municipal Mutual Insurance (MMI)-Amount (£2.3m) not material. hence, overly disclosed.	TBC

C. Audit Adjustments

Disclosure omission/misstatement	Adjusted?
Disclosure to explain restructure As well as the relevant columns being flagged as having been "restated" (which has been done in this case), narrative needs to be included to explain: a) the nature of the reclassification b) the amount of each item or class of items that is reclassified, and c) the reason for the reclassification.	TBC
Note G5 FV disclosure. Level 2 should be £34.3m, and Level 3 should be £8.2m.	TBC
Note G18 Acivico - Life expectancy for current pensioners should read 21.2 instead of 21.6, and 23.6 instead of 23.4. Acivico - CPI increase disclosure is not included in the actuary report - BCC have agreed to remove this. Acivico - Sensitivity analysis on effect of 0.1% increase in discount rate is not included in Acivico's audited accounts. This will be removed from the note.	TBC
Note G21 Bullet 5 of BAH in the 20/21 accounts has been removed in the 21/22 accounts inadvertently. This will be added back into the 21/22 accounts.	TBC

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m	Reason for not adjusting
Extrapolated error noted by the Pension Fund audit team As set out on the previous page, the auditor of the WMPF reported an extrapolated understatement in the valuation of the Fund's assets of £119m. The Council has adjusted its accounts for its share of the quantifiable element of this error but has not adjusted for the extrapolated element. If this further adjustment had been made, the Council's share would have been £6.8m	CR return on assets (6.8)	DR net pension assets 6.8	(6.8)	This is not a factual error but is an extrapolation of an error at the pension fund.
PBSE - Adjusting event for settlement of legal case post year end Settlement of legal case resulting in adjusting event under IAS10 as the settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that provisions is understated by £3.7m, with an equal and opposite overstatement in opening reserves.		DR opening reserves 3.7 CR Provisions 3.7		Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material.

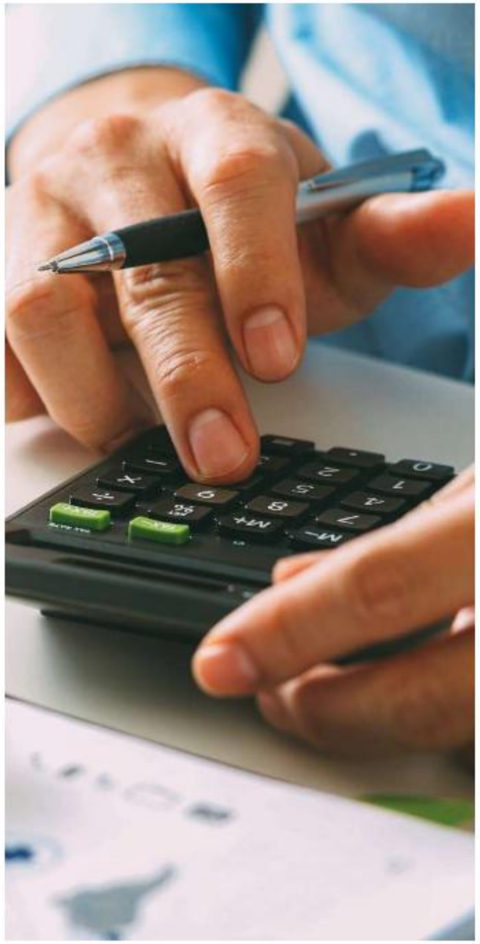
C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	CIES £m	SoFP £m	Impact on total net expenditure £m	Reason for not adjusting
Application of incorrect social housing factor to valuations Within other land and buildings, the Council has a land asset which is valued on a social housing basis. This value has been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. This has led to the value of the asset being overstated by £2.7m. (This error also occurred in 2020/21).	DR reval reserve 2.7	CR PPE (2.7)	2.7	
Overall impact	4.1	0.4	4.1	Not material

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements, along with our consideration of the impact on the 2021/22 financial statements.

Detail	CIES £m	SOFP £m	Reason for not adjusting
The auditor of the West Midlands Pension Fund reported an extrapolated understatement in the valuation of the Fund's assets of £90m. The Council adjusted its accounts for its share of the quantifiable element of this error (being £76m), but did not adjusted for the extrapolated element.	(3.8)	3.8	This is an extrapolation of an error at the pension fund. And has been superseded by a similar extrapolation in the current year. We are content that there is no material impact on the current year.
We identified errors in our expenditure occurrence testing, which could not be isolated to a particular population. They were therefore assumed to be representative of the population, and when extrapolated, gave a projected misstatement of £5.9m, ie a potential overstatement in expenditure.	(5.9)	5.9	Non-material extrapolated error, which is wholly offset by the item below.
We identified errors in our expenditure completeness testing identified errors which gave rise to projected misstatement of £10.0m indicating a potential understatement in expenditure.	10.0	(10.0)	Non-material extrapolated error, which wholly offsets the error above. This would have the effect of reducing the opening creditors balance by £4.1m which would therefore have decreased the closing creditors balance by £4.1m. This is not considered to be material and there are no other errors in the current year relating to creditors that suggest the issue is more widespread. The errors we've identified from our testing so far in 2021/22 expenditure testing is for expenditure that should have been recognised in 2021/22 but wasn't and therefore is inconsistent with this error. They are therefore considered separately and we are content that there is no material impact on the current year.

C. Audit Adjustments

Detail	CIES £m	SOFP £m	Reason for not adjusting
The settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that the Council's provisions at 31 March 2021 were understated, with an equal and opposite understatement in expenditure.	3.7	(3.7)	Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material. This has been carried forward as an unadjusted misstatement into the current year.
The Council has a policy of excluding assets with a value less than £50k from its financial statements. Following an audit recommendation in 2019/20, high level records of these valuations are now kept, but this was not the case prior to 2020/21. The maximum potential understatement (if all such assets were valued at £50k in previous years) is £10.9m. Using the average value in 2020/21 as an estimate for the average value across these assets would give an estimated omission of £3.8m.	(3.8)	3.8	Non-material extrapolated error.
Our testing of the valuations of the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with 15 of 41 such items. We identified a potential understatement of the Council's property, plant and equipment, of £6.1m.	(6.1)	6.1	Not considered to be material.
Overall impact (Group)	(£5.9m)	£5.9m	Not material

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final proposed fee
Council Audit	365,909	401,534*
Audit of subsidiary companies		
• NEC (Developments) plc	35,750	35,750
Total audit fees (excluding VAT)	£441,909	£437,284

* see pages 49 and 50 for how our proposed fee has been determined.

The Council does not separately disclose group audit fees in the notes to the group accounts. The fees for the Council as a single entity reconcile to the financial statements as follows:

- Fees disclosed per financial statements £402k (rounded to £0.4m)

Note that the scale fee for the audit of Birmingham City Council is £241,909, and the audit fee set out above includes a fee variation which is subject to PSAA approval.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Certification of 2020/21 Teachers' Pension return (November 2021 – January 2022)	£7,500	£7,500
• Certification of 2021/22 Teachers' Pension return (commenced June 2022)	£7,500	£TBC
• Certification of 2020/21 Housing Benefits Subsidy claim (June 2021 – January 2022)	£22,500	£22,500
• Certification of 2021/22 Housing Benefits Subsidy claim (June 2022 – January 2023)	£22,500	£22,500
• Certification of 2020/21 housing capital receipts grant (January - February 2022)	£5,500	£7,500
• Certification of 2021/22 housing capital receipts grant (to commence March 2023)	£7,500	£TBC
• AMSCI reasonable assurance engagements (April 2021)	£15,000	£15,000
• Homes England Compliance Checklist (August – September 2021)	£6,000	£6,000
• BEIS grants assurance work for the 2019/20 and 2020/21 years (November – December 2021)	£22,000	£20,000
There were no non-audit related services		
Total non-audit fees (excluding VAT)	£116,000	TBC

D. Fees

Audit fees		Proposed fee	Rationale for Fee
Council Audit scale fee		£241,909	As published by PSAA (https://www.psaa.co.uk/wp-content/uploads/2022/12/Auditor-Directory-for-website-2021-2022-as-at-07-February-2023.xlsx)
Ongoing increases to scale fee identified in 2019/20 and continuing to apply in 2020/21 and 2021/22			
Raising the bar/regulatory factors	£16,250		Reflects the need for additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Enhanced audit procedures for Property, Plant and Equipment	£11,250		Reflects the increased volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. In addition we have engaged our own audit expert – Wilks Head & Eve LLP.
Enhanced audit procedures for Pensions	£5,625		Reflects the increased granularity, depth and scope of coverage of our work.
Enhanced Audit Report requirements	£5,000		The Authority meets the definition of a Public Interest Entity.
Total fees relating to ongoing changes in requirements		£38,125	
Issues arising in 2020/21 and continuing to apply in 202122			
Increased audit requirements of revised ISAs	£26,000		New ISA requirements from 2020/21 audits in relation to the work that we complete to gain assurance over management' estimates and journal entries.
Equal Pay provision	£7,500		The audit work relating to the Council's provision for ongoing Equal Pay claims is complex, errors were identified during our substantive work which required follow-up and resolution, and along with a post balance sheet event.
IT General Controls	£30,000		Following the work of our internal IT Audit team, we identified a number of deficiencies and significant deficiencies in the Council's ITGCs. Factoring these findings into our audit work has increased sample sizes across the audit.
Total fees relating to ongoing 2020/21 issues		£63,500	

Audit fees	Proposed fee	Rationale for Fee
Issues arising in 2021/22		
Equal Pay Provision	£4,000	Consideration of new emerging issues in relation to the Equal Pay provision and impact on both the 2020/21 and 2021/22 accounts
Expenditure	£9,000	Errors were noted relating to the both the occurrence and completeness of expenditure which led to extended testing, follow up and resolution.
Group audit work	£5,000	Completion of specified audit procedures on the Council's material subsidiary which was originally anticipated to be achieved through reliance on component auditor, but it was identified that ethical restrictions precluded us from doing so. This work is required both in relation to 2020/21 and 2021/22 audits.
Additional work on Value for Money (VfM) under new NAO Code	£40,000	Due to the scale and complexity of the operations of the Council, the level of work required under the new arrangements is significant. In addition, the audit team identified five risks of significant weaknesses in arrangements which required additional follow-up procedures across a wide variety of areas, and which involved input from various subject matter experts within Grant Thornton.
Total audit fees (excluding VAT)	£401,534	(2020/21 final fee for comparison was £441,034)

E. Audit letter in respect of delayed VfM work

Dear Councillor Grindrod,

The original expectation under the approach to VfM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VfM arrangements, including issuing their commentary on VfM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

We reported to you in previously that we anticipated completing our audit work on the financial statements by the end of November and therefore would be issuing our Auditor's Annual Report (AAR), including our commentary on arrangements to secure value for money, no later than 28 February 2023. However, as the work on financial statements has been delayed for reasons explained in our Audit Findings Report, the AAR has also been delayed. It will be issued in due course and at any rate, no later than 3 months subsequent to the date that the financial statements are signed.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Jon Roberts

Partner

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