Birmingham City Council audit plan

Year ending 31 March 2022

Birmingham City Council
30 June 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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.

Key matters

Factors

Financial position

The whole local government sector faces pressure owing to cuts, funding pressures and service demands. The Council's Quarter 3 monitoring report, reports a forecast net revenue overspend of £4.2m, which is an improvement of £6.0m on the Quarter 2 position. This comprises various under and overspends, but the main driver of the overspend, is £11.4m in relation to Inclusion and SEND, and in particular Home to School transport, with £9.4m of the Financial Resilience Reserve being used to alleviate the pressures on Travel Assist. It is not yet known how long the pandemic will go on for or what the level of future support required will be. This, coupled with the recent local government financial settlement being for one year only, means that forecasts and assumptions made are clouded by economic uncertainty.

Recovery from COVID-19 pandemic

The Council has received central funding and has been administering support grants in 21/22. The majority of funding is not ringfenced and can be recognised as income when received. Additionally the Council has responded well to remote working and has been agile in delivering services, diverting office staff to frontline services where required. Internal controls have not changed significantly in relation to the business processes that feed into the financial statements. Management continue to factor in COVID-19 income and expenditure into budgets and cash flow forecasts, and the Council makes applications for additionally funding when available and relevant.

It continues to have a grip on costs arising, as well as income received, that is both directly and indirectly related to COVID-19, which will be key in any determining any future budget strategies and service delivery decisions, as society learns to live with the ongoing impacts of the pandemic.

Changes in IT systems

As part of our work to support the audit of the 2020/21 financial year, Grant Thornton's IT Audit team completed a design and implementation review of IT General Controls for applications identified as relevant to the audit. A number of deficiencies and significant deficiencies were identified through this review, relating to security management and individuals' access levels. These findings were discussed with management at the time, who have put in place an action plan to remediate the issues raised. The Council is in the process of implementing a new general ledger by moving from SAP to Oracle, which is anticipated to address the legacy findings raised. However, as the financial statements have been produced using the SAP ledger, any deficiencies deemed to still be in place are likely to have a impact on our approach and is likely to lead to extended testing.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work, as set further in our Audit Plan, has been agreed with the s151 Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will consider your arrangements for managing the implementation programme and design relevant audit procedures to ensure that any impacts from this change are taken into account.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Birmingham City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Birmingham City Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Birmingham City Council
- Birmingham Children's Trust CIC
- National Exhibition Centre (Developments) Plc
- Acivico Limited
- Birmingham City Propco Limited
- InReach (Birmingham) Limited
- PETPS (Birmingham) Limited
- PETPS (Birmingham) Pension Fund SLP
- Birmingham Airport Holdings Limited (Associate)
- Paradise Circus General Partner Limited (Joint Venture)

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

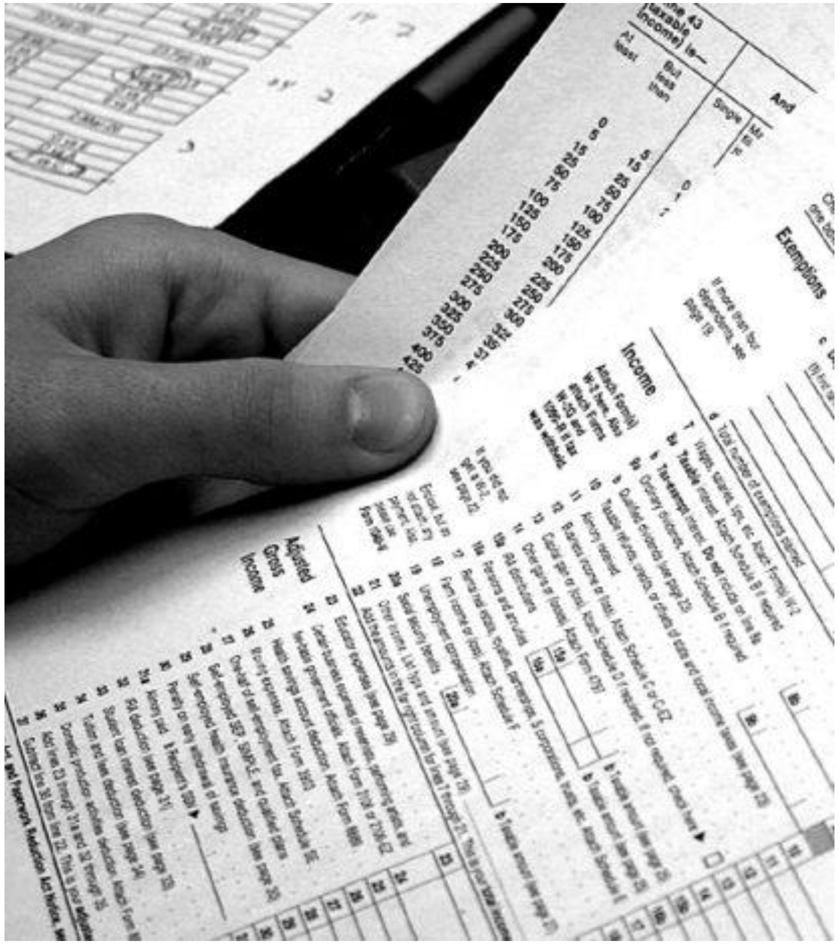
- Management override of controls
- Valuation of land and buildings
- Valuation of pension fund net liability
- Valuation and completeness of the equal pay liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £36.0m (PY £34.4m) for the group and £35.9m (PY £34.3m) for the Council, which equates to 1.2% of the prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.8m (PY £1.7m).

Introduction and headlines cont.



Value for Money arrangements

We have not yet undertaken our planning assessment pending completion of our 2020/21 audit, and therefore cannot formally confirm the risks we will be considering. However, we anticipate following up on the risks and findings we are currently in the process of finalising in discussion with officers as part of our Auditor's Annual Report for 2020/21. These are:

Areas of significant weakness:

- Independent reports into issues related to the Home to School Transport Service
- Arrangements in relation to required improvements in SEND services
- IT Audit findings and planned changes to the Council's general ledger

Areas where improvement recommendations were made:

- Contractual arrangements relating to the highways PFI scheme
- Potential impact of a lack of stable leadership due to significant level of turnover of key staff and officers
- Waste service continuity and industrial relations

In addition to the above items, we will consider the Council's arrangements in relation to financial sustainability, governance and improving economy, efficiency and effectiveness, to include ongoing consideration of the arrangements in relation to the financial impact of equal pay claims and the Commonwealth Games.

Audit logistics

Our planning work has taken place during March and April and our final visit will start in July. Finance officers anticipate providing a draft set of accounts at the end of July in line with the statutory deadline, but where we can we will commence work earlier, provided we have assurances that the relevant balances will not change in the finalisation of the draft accounts. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit has not yet been confirmed (PY proposed fee was £365,909 with final fee yet to be confirmed) for the Council. We will discuss this with management and those charged with governance in due course.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit scope	Risks identified	Planned audit approach
Birmingham City Council	Yes		Risks set out on pages 8 to 10 of this report	Full scope audit performed by Grant Thornton UK LLP
Birmingham Children's Trust CIC	No		We have not identified any significant risks of misstatement of the group financial statements, but the following balances are expected to be material to the group and will attract audit effort: • Expenditure • Net pension liability	Specific scope procedures on these balances, as well as on the Trust's cash balances if they are deemed to be material to the group as at 31 March 2022, by the component auditor, Crowe UK LLP. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.
National Exhibition Centre (Developments) Plc	No		We have not identified any significant risks of misstatement of the group financial statements, but the company's loan stock is expected to be material to the group and will therefore attract audit effort.	Specific procedures will be completed on these balances by Grant Thornton UK LLP.
Other entities as set out on page 4			None	Analytical review performed by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 (UK) 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 will still undertake a significant level of work on the Council and group's revenue streams, as they are material. We will: <u>Accounting policies and systems</u> • evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <u>Fees, charges and other service income</u> • agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence <u>Taxation and non-specific grant income</u> • income for national non-domestic rates and council tax is predicable and therefore we will conduct substantive analytical procedures • for other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.
Risk of fraud related to expenditure recognition 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 will still undertake a significant level of work on the Council and group's expenditure streams, as they are material and in recognition of PN10. We will: <u>Expenditure</u> • update our understanding of the Council's business processes associated with accounting for expenditure • agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. Further detail in this respect if set out on page 10.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	Group and Council	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 will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain 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 • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. We note from our work in prior audits that senior officers (ie Heads of Service) have access to the ledger, which does not reflect best practice. We do note however, that historically we have obtained assurance that in practice they do not use this access to post journals. We will design specific procedures as part of this year's work to conclude that this practice is extant, which we would consider mitigates the risk. Control findings have been raised in prior audits with respect to a number of users with multiple accounts as well as a number of accounts with high-level access. We will take this into account as part of our approach to our journals testing and perform enhanced procedures to ensure that this access has not led to material instances of management override.
Valuation and completeness of the equal pay liability	Group and Council	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 will: • update our understanding of the processes and controls put in place by management to estimate the equal pay provision • review the assumptions on which the estimate is based • assess 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 • confirm that the estimate has been determined and recognised in accordance with accounting standards • determine how management have assessed the estimation uncertainty • 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.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	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. Land and Buildings 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 therefore have 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. Council Dwellings Within the valuation of the Council Dwellings where the valuer's estimation of the value is on a discounted cash flow basis, the inputs and assumptions, particularly the maintenance costs, are still subject to review and discussion as part of the 2020/21 audit. 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 will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer within all valuations to assess the completeness and consistency with our understanding • engage our own valuer to assess the instructions issued by the Council to its valuer, the scope of the Council's valuer's work, the Council's valuer's reports and the assumptions that underpin the valuations • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. Such procedures will also be required in relation to those assets which have been valued during the year but not as at the year-end, as we will need to be assured that there is no material difference between the valuation date and the balance sheet date.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability (IAS 19 estimate)	Group and Council	The pension fund net liability, as reflected in the 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. We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in its calculation or due to the source data used in its calculation as no significant events have occurred, such as significant levels of redundancies, bulk transfers or outsourcing or other material transfers or material membership movements which the actuary may not have taken into account. However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in its calculation. The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. The appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the Council may choose to use different assumptions than those proposed by its 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 therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update 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 • evaluate the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities • test 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 • undertake 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 • obtain assurances form 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.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Operating expenses	Group and Council	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 will • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • test a sample of balances included within trade and other payables • test 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 • test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.
Oracle system implementation	Group (as impacts Birmingham Children's Trust CIC) and Council	The Council is implementing 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.	We have had discussions with the finance team, and our IT Audit team are in the process of reviewing the implementation strategy, which will be ongoing into the new financial year, as the third party provider and finance team undertake their reviews and reconciliations to ensure all relevant data has transferred completely and accurately. We have discussed the need to be able to map the new ledger to the old for the purposes of our cut-off testing and have been assured by officers that the trail will be readily available.

Other risks identified continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Infrastructure assets	Group and Council	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 derived 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.	In order to be able to conclude whether there is a risk of material misstatement we will: • assess risks of material misstatement related to infrastructure assets • update 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 • for a sample of assets or additions to infrastructure, we will enquire as to the basis of the asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

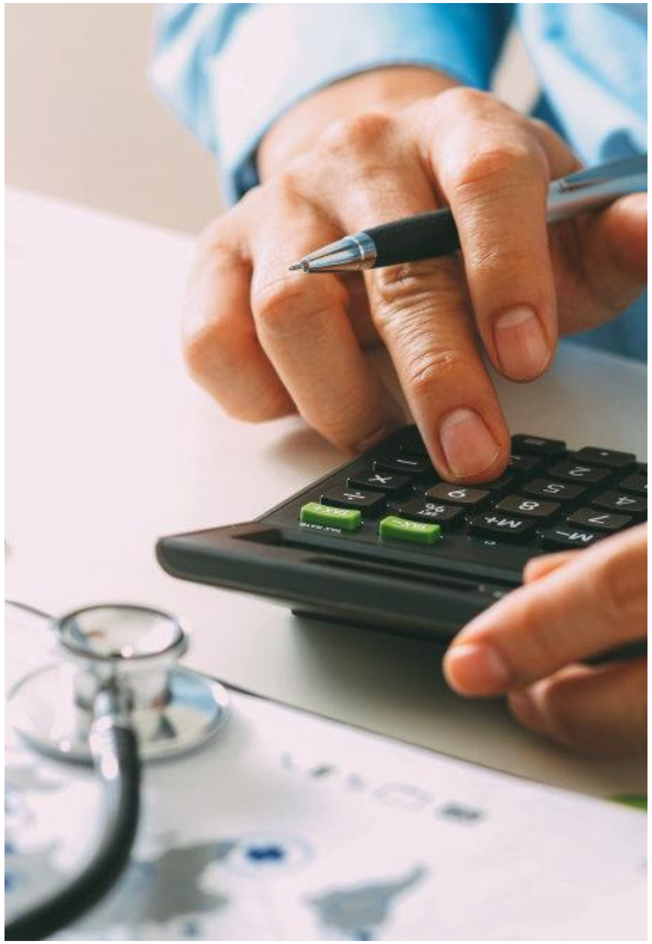
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this auditing standard, which was revised last audit year, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings
- Depreciation
- Provisions
- Accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

These are the material estimates likely to be present in the financial statements, but do not necessarily represent areas of material estimation uncertainty. Similarly, there may be areas of material estimation uncertainty that do not relate to these likely material estimates. Therefore this list of likely material estimates may not correspond to the list of material estimation uncertainties that the Council is required to disclose as a separate note within its financial statements.

The Council's information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures, we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc.

Responses to these enquiries are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2021/22 audit we have made additional enquiries on your accounting estimates in a similar way.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act)
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £36.0m (PY £34.4m) for the group and £35.9m (PY £34.3m) for the Council, which equates to 1.2% of your prior year gross expenditure for the year.

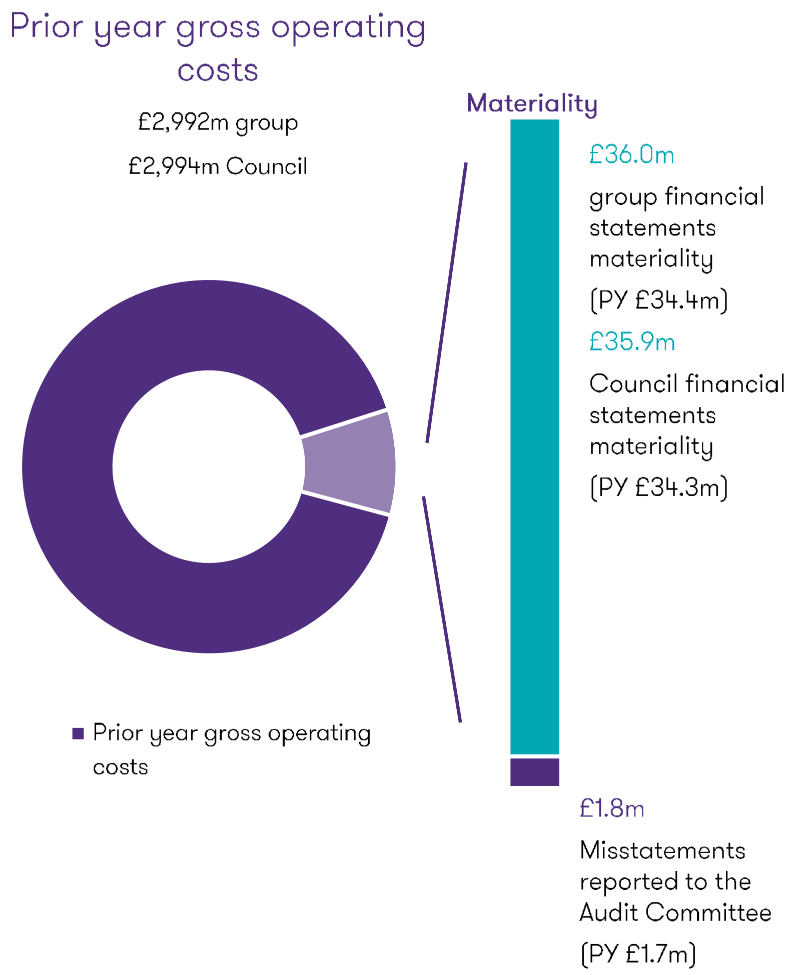
We design our procedures to detect errors in specific accounts at a lower level of precision. In particular, errors noted in disclosures relating to senior officers' remuneration and related party transactions will be considered on a case by case basis.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. This will include consideration of the uncorrected misstatements arising from the 2020/21 audit, once concluded upon, as these will have implications on our determination of materiality for the 2021/22 audit. It is important to note that where uncorrected misstatements rolled forward impact on the 2021/22 figures, these will also "count" towards the 2021/22 uncorrected misstatement levels.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.8m (PY £1.7m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Audit logistics and team

Planning and risk assessment

Audit Committee
April 2022
Audit Plan

Audit Committee
TBC
Interim Progress Report

Year end audit
July - November 2022

Audit Committee
TBC
Audit Findings Report
Audit opinion
Draft Auditor's Annual Report

Audit Committee
TBC
Auditor's Annual Report

Jon Roberts, Key Audit Partner

Jon will be the main point of contact for officers and committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice, ensuring that our audit is tailored specifically to the Council. Jon is responsible for the overall quality of our audit work, and will sign your audit opinion.

Nic Coombe, Senior Manager

Nic will work with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis. She will attend Audit Committee and liaison meetings with Jon, undertake reviews of the team's work and ensure that our reports are clear, concise and understandable.

Kirsty Lees, Manager

Kirsty will assist Nic in ensuring that testing is delivered. She will perform initial reviews of the team's output and work with Will to ensure that liaison with the finance team on a day-to-day basis ensures that any issues identified are raised on a timely basis.

Will Howard, Assistant Manager

Will will work directly with the finance team and manage the day-to-day work of the more junior members of our audit team. He will complete work on the more complex areas of the audit, and will provide support to Kirsty and Nic as necessary.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for Birmingham City Council to begin with effect from 2018/19. The scale fee agreed in the contract was £241,909. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 13-15 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22 has not yet been finalised pending the completion of our 2020/21 audit. We will discuss this with management and those charged with governance in due course.

	Proposed fee 2020/21	Actual fee 2020/21	Proposed fee 2021/22
Fee for the Council audit	£365,909	£TBC	£TBC
Audit of subsidiary companies • NEC (Developments) plc	£35,000	£35,000	£35,750
Total audit fees (excluding VAT)	£441,909	£TBC	£TBC

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

Other services

Other services provided by Grant Thornton UK LLP have been identified, as set out on the next page.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Independence and non-audit services

Service	Fees £	Threats	Safeguards
Audit related			
Certification of 2020/21 Teachers' Pension Return (November 2021 – January 2022)	7,500	For these three audit-related services, we consider that the following perceived threats may apply:	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.
Certification of 2020/21 Housing Benefits subsidy (June 2021 – January 2022)	22,500	• Self-interest (because these are recurring fees) • Self review	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.
Certification of 2020/21 Housing capital receipts (January – February 2022)	5,500	• Management	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.
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)	22,000	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 £22,000 in comparison to the confirmed scale fee for the audit of £2521,309 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.			

Appendix 1: Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Grant Thornton

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