

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 30 MARCH 2021 AT 14:00 HOURS
IN ON-LINE MEETING, MICROSOFT TEAMS

A G E N D A

1 NOTICE OF RECORDING/WEBCAST

The Chair to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 DECLARATIONS OF INTERESTS

Members are reminded that they must declare all relevant pecuniary and non pecuniary interests arising from any business to be discussed at this meeting. If a disclosable pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.

3 APOLOGIES

To receive any apologies.

4 EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 100I of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.

b) If so, to formally pass the following resolution:-

RESOLVED – That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to

information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

- 1 - 12**
- 5 **MINUTES - AUDIT COMMITTEE - 22 FEBRUARY 2021**
- To confirm and sign the minutes of the last meeting of the Committee held 22 February 2021.
- 6 **ASSURANCE SESSION - CABINET MEMBER TRANSPORTATION & ENVIRONMENT PORTFOLIO**
- (50 minutes allocated) (1405 – 1455)
- Verbal discussion
- The Cabinet Member Transportation & Environment with the Director of Inclusive Growth.
- 13 - 26**
- 7 **BIRMINGHAM AUDIT – INTERNAL AUDIT PLAN 2021/22**
- (15 minutes allocated) (1455 – 1510)
- Report of the Assistant Director Audit and Risk Management
- 27 - 56**
- 8 **AUDIT FINDINGS REPORT - UPDATE**
- (10 minutes allocated) (1510 – 1520)
- Report of the Interim Chief Finance Officer
- 57 - 134**
- 9 **INFORMING THE AUDIT RISK ASSESSMENT - GROUP COMPANY GOVERNANCE**
- (10 minutes allocated) (1520 – 1530)
- Report of the Interim Chief Finance Officer
- 135 - 162**
- 10 **ADOPTION OF ACCOUNTING POLICIES FOR 2020/21**
- (5 minutes allocated) (1530 – 1535)
- Report of the Interim Chief Finance Officer
- 163 - 190**
- 11 **EXTERNAL AUDITORS - AUDIT PLAN 2020-21**
- (15 minutes allocated) (1535 – 1550)
- Report of the External Auditors

191 - 226

12 **EXTERNAL AUDITORS - INFORMING THE AUDIT RISK ASSESSMENT**

(10 minutes allocated) (1550 – 1600)

Report of the External Auditors

227 - 228

13 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

14 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 27 April 2021 at 1400 hours via MS Teams (on-line).

15 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chair are matters of urgency.

16 **AUTHORITY TO CHAIR AND OFFICERS**

Chair to move:-

'In an urgent situation between meetings, the Chair jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 22 FEBRUARY 2021

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON MONDAY, 22 FEBRUARY 2021 AT 1400 HOURS - ONLINE MEETING

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Bridle, Jenkins and Tilsley

NOTICE OF RECORDING/WEBCAST

- 282 The Chair advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and members of the press/public could record and take photographs except where there were confidential or exempt items.

The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.

DECLARATIONS OF INTEREST

- 283 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

There were no declarations of interests made by Members of the Committee.

APOLOGIES

No apologies had been submitted in advance of the meeting.

Concerns were raised around the lack of attendance of Members in recent months and the impact this could have on the quoracy of the meeting. It was agreed for the Chair to write to Councillors reminding them the importance of the Audit Committee. If Members were unable to attend a meeting, then apologies should be submitted to the Chair and the Audit Committee Manager.

284 **RESOLVED:-**

The Chair to write to Members of the Audit Committee regarding attendance at meetings.

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

Members agreed there were no items on the agenda that contained exempt information.

285 **RESOLVED:-**

That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

MINUTES – AUDIT COMMITTEE – 26 JANUARY 2021

286 **RESOLVED:-**

That the public minutes of the last meeting having been circulated, were agreed by the Committee.

The Chair apologised the following point was not mentioned at the previous Committee. Since the January Committee, Martin Stevens, the former Head of City Finance had retired from the Council. He had provided extensive support, guidance and expertise to the Members and was an exceptional servant to the Audit Committee. On behalf of the Audit Committee, the Chair thanked Martin and wished him well for his next endeavour. Members were in support of this comment.

ASSURANCE SESSION – CABINET MEMBER FOR HOMES AND NEIGHBOURHOODS PORTFOLIO

The Chair welcomed the Cabinet Member for Homes and Neighbourhoods to the Assurance Session of the Committee.

The Cabinet Member for Homes and Neighbourhoods notified Members this was a large portfolio consisting of Housing; Homelessness; Bereavement Services; Registrations and Localism agenda. She thanked all the Officers across the Directorate for the work undertaken in the portfolio during the Covid-19 pandemic.

Part 1: Housing

The Cabinet Member for Homes and Neighbourhoods noted the service across housing repairs and maintenance had continued to be delivered during the pandemic albeit with safeguarding around staff and contractors.

She highlighted the Capital Investment Programme continued to be delivered. This included the provision of the sprinkler systems into 213 tower blocks. The Director of Neighbourhoods added, this was a 3-year programme installing sprinklers across the tower blocks. He noted a tremendous amount of capital work had taken place over the period. He commended the staff and contractors for their diligence whilst undertaking the work. Furthermore, this work was complemented by additional work to replace fire doors and balcony infills.

The Cabinet Member for Homes and Neighbourhoods and the Director of Neighbourhoods gave a summary of key areas within the portfolio. These were;

- Homelessness – There had been some good outcomes within this area. Birmingham had been recognised as an exemplar by the Ministry of Housing, Communities and Local Government (MHCLG). In addition, Birmingham had been selected as one of five Local Authorities to pilot supported housing 'Exempt Accommodation'.

The Director for Neighbourhoods noted the past 11 months had been very challenging due to Covid-19. He commended the staff for the tremendous effort across the service. Birmingham had been recognised nationally for the work on Homelessness and responding the rough sleeping initiative 'Everyone in'. This had reduced the number of rough sleepers significantly across the City.

- Help to Rent - In October, the 'Help to Rent' scheme was launched to support people find affordable housing as well as support landlords in the Private Rented Sector. This scheme provided support by sharing best practice on becoming landlords. The scheme was an incentive to bring properties back into use by offering a 12 months fixed tenancy to those on the Council's Homelessness List and Housing registration.

The Director for Neighbourhoods referred to the reduction of bed and breakfast accommodation where investment was made to ensure the early help and prevention work around homelessness was increased. This had stemmed from the Homelessness Reduction Act introduced in 2018 which saw an 15% increase in the amount of people that approach the City with a homelessness need. He recognised this was a key priority for service therefore, a review would be taking place by working with families in order to break the cycle of homelessness.

The Cabinet Member for Homes and Neighbourhoods added several complexities arose as a result of Covid-19 pandemic therefore, a lot of work in the prevention space had been taken. She highlighted in terms of rough sleepers, over 1,700 singles were supported who were either homeless or at risk of being homeless. Since March 2020, 10,000 representations had been made by families.

- **Localisation** – A delivery plan for Localisation covered the key actions within the 'Working together in Neighbourhoods' policy document. This had since been revisited by working with the locality areas to ensure this was fit for purpose.
- **Ward Plans** – 45 out of 65 Ward plans have been completed. Those that had not been completed, Councillors would need to ensure these were finished with their communities. Online Ward Forum meetings were taking place across the City where Councillors had been offered this provision. Wards had spend allocated as part of the Commonwealth Games Funding for Celebrating Communities and Local Community.

Part 2: Bereavement Services

The Cabinet Member for Homes and Neighbourhoods noted there had been huge difficulties within this service throughout Covid-19 and she thanked all the staff who had been working across the service. She reminded Members, during April 2020, there was an increase of deaths across the City. As a result, a temporary mortuary facility was erected on Sutton Cemetery site which had since been take down, as there was no further requirement for this.

The Director for Neighbourhood referred to the fees and charges associated with the Bereavement Service which was highlighted as an issue in the Directorate Assurance Statements. He assured the Committee the fees and charges associated with the cemeteries and crematoriums had been reviewed.

Part 3: Digital Autopsy

The digital autopsy was a pilot for 250 bodies, however to date this had been used for over 350 bodies. It was noted the pilot had provided mixed diagnosis. In some cases, the cause of death had been identified however, in other cases a diagnosis had not been provided. The pilot was due to end, however due to Covid-19 this had been extended. The new contract was for 500 deceased people in the year ending June 2021 and had been very useful to identify the Covid-19 infection.

Part 4: Centre of Excellence

The Cabinet Member for Homes and Neighbourhoods was passionate to have a Centre of Excellence across the region to cover Birmingham, Solihull and Black Country. She recognised it was important to have a service that was fit for purpose with facilities such as pathology and training area.

Members response

The Committee then asked questions of the Cabinet Member for Homes and Neighbourhoods and the following points were noted:

The Chair noted there was an issue around cladding which was highlighted as a risk in the Annual Governance Statement. The quality of Customer Service from the Housing Department required improvement as Councillors were often drawn into following up queries on behalf of the residents.

Councillor Tilsley was concerned about homelessness within the City which was raised at City Council in January. He noted there were 3500 individuals and families that require either a bed and breakfast, temporary accommodation or hostels facility. Following the impact of Covid-19, there would be a further effect within the Housing area. He added there were approximately 350 individuals and families outside the City in temporary accommodation and suggested the Cabinet Member to explore vacant units of accommodation across the City e.g. vacant units of accommodation above shops.

Reference was made to the Community Infrastructure Levy (CIL) and suggested arrangements should be made for the spend to go to the wider community. He recognised the local community would have had to deal with a lot of inconvenience during constructions within their areas therefore, they should direct beneficiaries from this. He referred to complaints, and these should be resolved correctly first time. In terms of the cladding, he noted there were several high-rise blocks within the city which were for sale therefore, support would need to be provided.

Councillor Bridle referred to risk and governance issues related to policy outlined in the 'Working in Neighbourhoods' paper presented to Cabinet approximately 2 years ago. The policy was set out to improve the relationship between the Council and the public within the city by sharing a new vision. She noted this was fundamental policy, yet it had a low profile. Questions were raised around the governance of the localisation and who was delivering the policy commitment.

Councillor Jenkins commented on Members contacting Directors and Senior Officers to resolve issues raised by residents. It was vital the City had an effective system to respond to the public. It was noted, he would get involved in issues where there was a systemic failure, or the result was unjust / unfair to the resident.

He found the housing situation across the City unsatisfactory and suggested 'Zoning' (planning permissions) similar to USA to be adopted where parts of the City were given rules to build against and providing this was followed, planning permission was not required therefore the build could continue.

In response to Members questions, the Cabinet Member for Homes and Neighbourhoods and the Director of Neighbourhoods made the following points;

Customer Care – The Cabinet Member for Homes and Neighbourhoods noted Customer Care across all service areas had been affected over the last 12 months due to Covid-19 and this placed pressure across all services throughout the Council. Work was taking place within the Directorate by having conversations with case workers and Cross-Party MPs. The Council's view was to explore a single-entry point for Customer Services for which the Deputy Leader and the Director of Digital and Customer Services were leading. The demand for housing had increased and over 3000 families were in temporary accommodation across the City. A wholesale review of the complaint's and inquiry system was taking place. Additional resources were being sourced to ensure the right level of response was in place as the quality of responses to queries had to be improved.

Cladding - The Cabinet Member for Homes and Neighbourhoods informed Members, for the past 2 years, Birmingham City Council had been lobbying the Government extensively around fire safety as it had 213 tower blocks. It was noted, none of the tower blocks owned by Birmingham had cladding that was apparent on Grenfell Tower therefore, the Government was not prepared to give funding towards this.

Birmingham City Council had invested over £50m into the tower blocks owned by the Council as well as supporting lease holders. It was important to learn lessons from Grenfell therefore; it was crucial to be inclusive of anyone who lived in tower blocks. The Cabinet Member of Homes and Neighbourhoods was very supportive of those lobbying this issue to Government to ensure everyone is supported around cladding issues.

A whole scale safety review for the high-rise and low-rise blocks was underway. Work had taken place with MHCLG, where Birmingham was a member of an early adopter programme. Birmingham had been heavily involved in the work, shaping Government Policy and legislation. Work had taken place with MHCLG to identify private blocks within the City that may have dangerous cladding. Returns were submitted on a regular basis to the MHCLG to ensure buildings with dangerous cladding were identified and the owners of those buildings are taking measures to either mitigate the problem or to remove and replace cladding. Government recently announced leaseholders and private blocks would not be subject for payment for removing and replacing dangerous cladding.

The Director of Neighbourhoods notified Members he had been in touch with the Secretary of State office to explore how Local Authorities could assist to ensure building owners undertake the work on the buildings as the relevant funds would go to the building owners. The Local Authority would administer and assist with the funding to ensure the dangerous cladding was removed and replaced in private blocks.

The Cabinet Member for Homes and Neighbourhoods was very supportive of the Leaseholders. Cross Party letters had been circulated during Covid-19, which was led by Shabana Mahmood (MP). She had written to the Government on this issue and met with groups that had been affected and support would be given to those affected. A petition had been shared at City Council for Councillors to support the leaseholders.

Temporary accommodation – The number of people in bed and breakfast had increased in the last year. Public Health had advised due to Covid-19 and many people in bubbles, the numbers of people placed in temporary accommodation had to be reduced therefore, this had an impact on capacity.

More houses would need to be built to meet the demand. Government would need to improve the financial modelling around building Council properties however, this was not the only solution.

Work was happening with the Empty Property Team in order to bring 365 houses back into use every year. This would increase the capacity to the need of the City.

During the pandemic, Cabinet approved Community Led Housing Policy to give more options of building houses. Issues such as people ‘flipping/ turning over’ properties into either HMO’s or exempt accommodations was a problem for Birmingham. She noted, Birmingham required more family housing. Work was being undertaken through a pilot to help address the exempt accommodation issue and for those who wish to enter the housing market.

In reference to shops highlighted by Councillor Tilsley, she indicated this did not sit under the Homes and Neighbourhoods portfolio.

The Economic Development Team and Housing have been undertaking a lot of work over the last year analysing the need for the City and looking for innovative ways forward.

Use of Community Infrastructure Levy (CIL) - The Cabinet Member for Homes and Neighbourhoods shared communities were being encouraged to have more of a say in line with the localisation agenda.

The Director of Neighbourhoods added he would provide Members with a detailed briefing note on the funding proposals around CIL which had been presented to Cabinet.

Localisation – The Cabinet Member for Homes and Neighbourhoods indicated localisation was a cross portfolio responsibility. She informed Members there was two sides to this area of work. These were;

- i) Outward facing engagement with communities and elected members (ward forums) driven by Neighbourhood Development Unit.
- ii) Cutting across a number of Council Services and portfolios led by the Assistant Director of Neighbourhoods (Chris Jordan).

She noted during the Covid-19 pandemic, the relationship with communities had changed. There was a huge level of commitment from local communities at various levels and the Council had to respond to this by reshaping and remodelling strengths moving forward. A piece of work around locality has taken place. BVSC and several other partners have been involved.

The Council had not been good at sharing the good practice under the localisation agenda. However, great work had taken place in Economic Development Team with several communities. In addition, they had looked at the framework, development sites and reservoirs etc. Work had taken place under the Climate Change agenda which linked in with the localisation. The Cabinet Member highlighted, the Council had not been forth coming and badging things under localisation. Cabinet Member Briefings took place across the portfolios, where localisation was on the agenda.

At this juncture, the Chair thanked the Cabinet Member for Homes and Neighbourhoods and the Director for Neighbourhoods for their attendance.

Upon consideration, it was:

RESOLVED:-

i) That the Committee noted the updates received on the Cabinet Member for Homes and Neighbourhoods Portfolio.

AUDIT PROGRESS REPORT AND SECTOR UPDATE

The following report of the External Auditors was submitted: -

(See document No.1)

The Key Auditor Partner, Grant Thornton provided two key updates as part of the Sector update. These were;

Accounting estimates and related disclosures - Page 29 of the document pack

A new International Standard of Auditing (ISA 540) would be applicable from this year's audit onwards. This highlights the importance of accounting estimates e.g. for the Council this would be property evaluations (schools, housing); Commercial ventures; pension disclosures – provisions and accruals.

Under the new standard, the Audit Committee would have more of a role which was summarised within the report. Members would need to understand the approach to estimation, understand uncertainties and evaluate this. This was an important change to the Audit Committees responsibilities going forward.

He highlighted local authorities have started to deliver presentations, trainings on estimates to Audit Committees for experts to explain the process followed by indicating the models used and risks associated with the estimates.

Value for Money Arrangements – (Development of the Audit work) - Page 31 & 32 of the document pack

The previous value for money work was based on a binary conclusion (i.e. pass or fail) which was a risk-based approach. From 2021, under the new value for money work, the National Audit Office had revised the Code of Order Practice and the guidance that supported this to create a holistic approach to value for money. He noted, going forward, the External Auditors would not give the binary conclusion but a narrative report around those areas by providing comparisons, best practise analysis and challenge.

Members commented upon the report.

In response, to Members questions, the Key Auditor Partner, Grant Thornton made the following points;

- Commitment was required from both Members and Officers. Officers should provide Members with clear information as this could be a challenge.
- Members were urged to get familiar with the guidance which was available on the National Audit website.
- Training sessions could be delivered to Members on the new changes.

- Value for money work comment in a narrative report over 3 areas; Improving Economy, Efficiency and Effectiveness; Financial Sustainability and Governance areas of the code that the External Auditors form a view on. If there are areas that have specific risks, these are commented upon and a deep dive undertaken.
- A deep dive around the Covid related risk should take place and how the Council responded to them.
- The Council should explain its own arrangements by evaluating and reflecting the arrangements into the Annual Governance statement.

The Chair noted the External Auditors offer to deliver training around the new arrangements and he would be interested to see how to take this forward.

Councillor Jenkins was not in support of a separate training course on this area due to requiring further time away for Members.

The Chair emphasised any training would be voluntary and suggested a proposal to be shared with Members.

Upon consideration, it was:

288

RESOLVED:-

That the Audit Committee Members noted the content of the report.

THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN AND THE HOUSING OMBUDSMAN ANNUAL REVIEW 2019/20

The following report of the Interim Chief Executive was submitted: -

(See document No.2)

The Acting Assistant Practice Manager, Legal Services gave a comprehensive overview of the reports.

It was noted following last year's Audit Committee, a comparison of the Core Cities had taken place in relation to the upheld rates in complaints. In 2019-20, the figures indicated that Birmingham's upheld rate was less than Sheffield City Council and Liverpool City Council however not with Leeds City Council whom the Audit Committee originally suggested to compare against. The LGSCO did not consider Nottingham or Bristol City Council's as being "similar authorities".

Members commented upon the report.

In response, to Members questions, the Acting Assistant Practice Manager, Legal Services made the following points;

- The Ombudsman reports were received in July and September and the Chair supported receiving the reports in a timely manner (Audit Committee in November/ December).

Audit Committee – 22 February 2021

- The Professional Standard Team consisted of the Whistleblowing Team, Ombudsman Team and Members Standards Complaints which was formed last year. Detailed reports were provided to the Directorates and would be incorporated into the quarterly reports to the Chief Executive.
- The Interim City Solicitor clarified the Professional Standards Team was several teams paired together as one and badged as the Professional Standards Team. As advised by the Acting Assistant Practice Manager, Legal Services this consisted of the Whistleblowing Team, Ombudsman Team and Members Standards Complaints.

Upon consideration, it was:

289

RESOLVED:-

That the Audit Committee received the report concerning the Local Government and Social Care Ombudsman and Housing Ombudsman Annual Report for 2019/20.

PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The following report of the Assistant Director Audit and Risk Management was submitted: -

(See document No.3)

The Assistant Director Audit and Risk Management notified Members information contained within the report was shared at the January Committee as part of the Birmingham Audit Half Year update report. The purpose of the assessment was to help improve the delivery the Internal Audit Service. An external assessment was required once every five years, where 2021 was Birmingham's next assessment date.

At the 26 January Audit Committee, Members agreed to proceed to develop the approach with the Core Cities Peer Review and to share further details. She informed the Committee; Manchester City Council had agreed to review Birmingham City Council. Birmingham City Council would cover the review of Sheffield City Council. A further report would be shared with the Audit Committee later. Any actions from the Peer Review would be monitored by the Audit Committee.

The Chair noted Councillor Tilsley raised an important point on this issue at the January Committee. Following the proposals shared, Councillor Tilsley was content with the way forward and thanked the Assistant Director Audit and Risk Management to review this promptly.

Upon consideration, it was:

290

RESOLVED:-

Members approved the proposed approach for Manchester City Council to undertake the Public Sector Internal Audit Standards compliance review, i.e. a Core Cities peer review, together with the attached Terms of Reference.

SCHEDULE OF OUTSTANDING MINUTES

291 Members were provided with updates to the outstanding actions.

**Minute 260 25/11/2020 – Independent Advisor to Audit Committee
Additional Recommendation**

- iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role. This would be provided at a future Committee.

To be shared at a future committee.

**Minute 274 26/01/2021 - Birmingham Audit – Half Year Update Report
2020/21**

**Additional Recommendation: Public Sector Internal Audit Standard
Compliance review**

- iv) Members agreed the overall approach to a Public Sector Internal Audit Standard Compliance review. However, Members agreed to seek further assurances to the Council undertaking the Peer Review. A further update to be provided to the Committee to reconsider options.

Presented at this Committee. Completed & discharged.

**Minute 279 26/01/2021 - Assurance Session – Cabinet Member for
Children's Wellbeing Portfolio
Additional Recommendations:**

- ii) To provide the Committee with any outstanding reports, supporting tools related to Travel Assist at a future Committee.
- iii) To provide Members with the cost for Consultancy support, assistance to stabilise the service and the cost to build the framework for ongoing improvement within the Travel Assist Service since September.
- iv) The Council's Transformation Programme to be shared at a future Committee.

To be shared at a future committee.

**SCHEDULE OF MEETINGS FOR THE MUNICIPAL YEAR
2021/22**

- Tuesday 29 June 2021 1400 – 1600hours
- Monday 26 July 2021 1400 – 1600 hours
- Tuesday 28 September 2021 1400 – 1600 hours
- Tuesday 19 October 2021 1400 – 1600 hours
- Monday 29 November 2021 1400 – 1600 hours
- Tuesday 25 January 2022 1400 – 1600 hours
- Tuesday 15 February 2022 1400 – 1600 hours

Audit Committee – 22 February 2021

- Tuesday 29 March 2022 1400 – 1600 hours
- Tuesday 26 April 2022 1400 – 1600 hours

Upon consideration, it was:

292

RESOLVED:-

Members agreed the dates for the Audit Committee 2021/22.

DATE AND TIME OF NEXT MEETING

The next meeting is scheduled to take place Tuesday, 30 March 2021 at 1400 hours via MS Teams (on-line).

OTHER URGENT BUSINESS

The Chair notified the Committee, the Annual Report of the Audit Committee was delivered to the 02 Feb 2021 City Council. He thanked Members and Officers of their contributions. A regular report would be shared to full Council.

293

RESOLVED: -

That the Committee noted the Annual Report of the Audit Committee was delivered at the 02 February City Council.

AUTHORITY TO CHAIRMAN AND OFFICERS

294

RESOLVED:-

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee

The meeting ended at 1541 hours.

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CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: **Audit Committee**

Report of: **Assistant Director, Audit and Risk Management**

Date of Meeting: **30th March 2021**

Subject: **Birmingham Audit – Internal Audit Plan 2021/22**

Wards Affected: All

1. Purpose of report.

1.1 To gain approval of the 2021/22 proposed internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note the methodology and assumptions applied in developing the 2021/22 internal audit plan;

2.1.2 consider the proposed audit coverage and identify any areas they wish to suggest for inclusion in the risking process; and

2.1.3 subject to any agreed adjustments, approve the proposed plan.

3. Summary of Key Issues

3.1 The estimated number of audit days available for 2021/22 is 4427.

3.2 The audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control.

3.3 The plan is dynamic and is constantly reviewed and updated, based on discussions and feedback received, to reflect the changing risks faced by the Council.

3.4	The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
3.5	Progress in delivering the audit plan, together with any key issues identified, will be reported to future Audit Committee meetings.
4.	Legal and Resource Implications
4.1	The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards and within the approved budget.
5.	Risk Management & Equality Analysis Issues
5.1	Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.
5.2	We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.
6.	Compliance Issues
6.1	Decisions are consistent with relevant Council Policies, Plans or Strategies.

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Birmingham Audit –Internal Audit Plan 2021/22

30th March 2021

Contents

- 1. Background**
- 2. Quality Assurance**
- 3. Internal Audit Plan**

Appendix A: Internal Audit Plan Summary

Appendix B: Internal Audit Plan 2021/22

1. Background

- 1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.
- 1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:
 - Accounts and Audit Regulations 2015;
 - Fraud Act 2006;
 - Social Housing Fraud (Power to Require Information) Regulations 2014;
 - Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
 - Public Sector Internal Audit Standards (PSIAS).
- 1.2 The annual audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.
- 1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources, such as the Council's external auditor.

- 1.4 The independent audit opinion feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.
- 1.5 We continue to review, revise and update our working practices and methodologies to ensure we remain in line with recommended best practice. During last year we completed a Total Impact Review. The objective of the review was to measure the holistic contribution of the Internal Audit function and identify a development plan to maximise the value provided by the service. The findings from this work were reported to the Audit Committee as part of the 2020/21 Half Year Report. During 2021/22 we will continue to take forward the findings from this review and build upon the effectiveness of the service.

2. Quality Assurance

- 2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.
- 2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013.
- 2.3 Our external PSIAS review was last undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. We are currently completing a self-assessment against the PSIAS standards to verify that we continue to comply with requirements. At the last Committee meeting, February 2021, Members agreed the approach and terms of reference for our next external assessment. This will be completed during 2021/22. The result of this review will be reported to Committee once finalised.

3. Internal Audit Plan

- 3.1 Our estimated number of productive days available for 2021/22 is 4427. This compares to 4664 in 2020/21. This reduction of 237 days principally relates to the suspension of recruitment to one vacant school auditor post as part of the Council's corporate workforce savings programme.
- 3.2 As part of our planning process we have undertaken a risk and assurance mapping exercise across the whole of the organisation. This involves identifying the potential risks that may impact on the delivery of key objectives and priorities, the systems of governance, and financial controls. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise, we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Directors / Assistant Directors.
- 3.3 The COVID-19 restrictions have had a significant impact on the delivery of the 2020/21 audit plan. Our focus during the year has been on assisting the Council in responding to the pandemic and continuing to maintain critical services. Inevitably this has resulted in some restriction and limitation to the scope of our work during the year. The results of our work during 2020/21 will be reported to Committee, together with our annual opinion on the systems of internal control, within our Annual Report. The planned areas of audit activity that we have been unable to complete during 2020/21 have been fed into the risk assessment when developing the 2021/22 audit plan.
- 3.4 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area, we liaise with the Council's external auditors. We have allocated 705 days for the main financial systems work, including the review of IT controls, in 2021/22 the main areas we intend to cover are:
- Payroll
 - Accounts Payable

- Accounts Receivable
- BACS
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR
- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- Rent Collection and Charges
- Non invoiced income / Cashiers
- Direct Payments
- Carefirst / Eclipse

3.5 We have also 'ring-fenced' a number of days to support the Corporate Fraud Team, complete the school visiting programme and for undertaking chargeable work.

3.5.1 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2021/22 plan we have allocated 830 days for this work (this excludes work on application-based fraud e.g. Social Housing, Council Tax, NNDR etc.). We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral, we provide support and guidance to managers to ensure the necessary action is completed.

3.5.2 540 days have been allocated for the completion of school visits during 21/22. This is a reduction of 180 days from the 720 days allocated in 2020/21. The school visiting programme is risk based to ensure we target our resources effectively.

- 3.5.3 Chargeable work includes audit reviews completed on behalf of the Birmingham Children's Trust, Acivico, and grant certification. The contract for the provision of internal audit services to the Birmingham Children's Trust ended on 31st March 2021. We are currently in negotiations with the Trust to specify the interim arrangements that they require until they issue an invitation to tender. We have expressed our desire to submit a bid to continue as the Trust's internal auditors.
- 3.6 The remainder of our available resource is allocated based on our assessment of risk. We use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:
- assessment of the adequacy of the control environment;
 - strategic alignment to organisation priorities;
 - materiality;
 - sensitivity/reputational risk;
 - assessment of management controls;
 - management concerns;
 - assurance based on internal audit work / knowledge and how recent that was;
 - inclusion in the corporate risk register;
 - assurance based on scrutiny reviews;
 - assurance based on external audit or other inspectorate work and how recent that was; and
 - assurance gained from other sources, including that gained from operational and performance management.
- 3.7 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities.
- 3.8 The plan also includes a proportion of time that has been set aside to cover contingencies and follow-up work. This helps us 'flex' the plan and respond to emerging issues during the year and ensure that significant audit issues are actioned.

- 3.9 A summary of the 2021/22 audit plan, based on our current assessment of risk is detailed in Appendix A, previous year figures are provided for comparative purposes. A detailed plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.
- 3.10 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
- 3.11 Any significant updates to the plan will be reported to the Audit Committee. Progress in delivering the plan, together with any significant issues identified, will also be reported to Audit Committee. Audit report schedules, detailing the final reports issued during the month and their assurance and risk ratings, will be issued to Committee Members throughout the year. Members can request a copy of any report.

Appendix A

Internal Audit Plan Summary

	19/20		20/21		21/22	
	%	Days	%	Days	%	Days
Number of Audit Days in Annual Plan	100%	4691	100%	4664	100%	4427
Main Financial Systems	15%	725	15%	705	16%	705
Business Controls Assurance	38%	1770	38%	1780	39%	1711
Investigations	18%	830	18%	830	19%	830
Schools (Non Visits)	1%	60	1%	30	1%	42
Schools (Visits)	15%	720	15%	720	12%	540
Follow up Work	4%	175	4%	175	4%	175
Ad-hoc Work / Contingency	6%	286	6%	299	6%	289
Planning & Reporting	3%	120	3%	120	3%	130
City Initiatives	0%	5	0%	5	0%	5

Appendix B

Internal Audit Plan 2020/21

	Days	Total
Financial Systems (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	705
Business Controls Assurance		
Work in Progress b/fwd. from 2020/21	50	
IT Related Non-Financial Systems Work	370	
Data Analysis	200	
Corporate Risk Management Facilitation	50	

Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	935
<u>Adults Social Care</u>		
Occupational Therapy DFG	20	
Transitions to Adulthood	20	
Day Centres	15	
Assessment & Support Planning	20	
Commissioning	20	
Liberty Protection Standard	10	
Placements	20	125
<u>Education and Skills</u>		
Safeguarding Corporate Overview	30	
Home to School Transport	15	
Commissioning & Contract Management Framework	20	
SEND - Transition from Commissioning Independent Provision to LA School based Provision	6	
Pre 16 Careers Service Delivery Arrangements (LA & Schools)	15	
Post 16 Providers - NEETS & Not Knowns Performance	15	
Birmingham Children's Trust – Contract Management	20	
Safeguarding & Development – BCSB	30	151
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		

Accountable Body	30	30
<u>Neighbourhoods</u>		
Homelessness	15	
Waste Management	25	
HMO Licensing	15	
Fleet Management	20	
Housing Visiting Programme	10	
Bereavement Services	10	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	295
<u>Partnerships, Insight and Prevention</u>		
Public Health	30	
Resilience	20	
Project Management	30	80
		1723
Investigations		
Reactive investigations	430	
Proactive work	200	
Fraud Awareness	200	830
Schools - Non Visits		
Themed Work	30	
Responding to the Challenge of Improving Financial Management in Schools	12	42
Schools - Visits	540	540
Follow Up Work		175
Ad Hoc Work / Contingency		289
Planning and Reporting		130

City Initiatives		5
TOTAL		4427

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Interim Chief Finance Officer
Date of Decision:	30 March 2021
Subject:	AUDIT FINDINGS REPORT UPDATE
Wards affected: All	
1 Purpose	
1.1	At its meeting on 25 November 2020, Members considered the External Auditor's Audit Findings Report (AFR) on the Council's financial statements, which summarised the significant outcomes, conclusions and recommendations from their work to date.
1.2	At that time, whilst the external auditors had completed the substantial proportion of their audit of the financial statements, there remained a number of elements where further work was required. Following the completion of the work, the External Auditor issued a revised Audit Findings Report, which members considered on 26 January 2021.
1.3	The revised AFR contained 13 new recommendations and follows up on 5 recommendations from prior years.
1.4	Management responses were considered at Audit Committee on 26 January 2021 and are identified in Appendix 1. This report provides updates on progress in implementing action to meet the recommendations also identified in Appendix 1.
2 Decisions recommended:	
	Members are recommended to:
2.1	Note the updates on progress in implementing action to meet the recommendations of the External Auditor's Audit Findings Report.

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Contact Officer: Mohammed Sajid
Telephone No: 0121 303 3313
E-mail address: mohammed.sajid@birmingham.gov.uk

3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The coverage of the Audit Findings Report, Annual Audit Letter and actions highlighted in this report are consistent with the policy framework and budget.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The Audit Findings Report includes details on activities where the External Auditor has identified that the Council can make improvements or reduce risks in its operations. This report provides an update as to how the recommendations made will be addressed.

4 Relevant background/chronology of key events:

- 4.1 The external auditor's Audit Findings Report (AFR) was considered by this committee at its meeting on 25 November 2020. Included within the AFR were details of work that still remained to be completed.
- 4.2 A revised AFR, along with management responses was considered by Audit Committee on 26 January 2021. At that meeting, Audit Committee agreed for further reports to be provided setting out progress in implementing the proposed activity in response to the recommendations set out in the AFR.
- 4.3 This report provides an update on that proposed management activity.

Signature:

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Rebecca Hellard, Interim Chief Finance Officer

Appendices

Appendix 1 – Management Response to Audit Findings Report Recommendations including updates to meet those recommendations.

Appendix 2 – Asset valuation flow chart with reference to recommendation 19/03 – Errors Noted in Property Valuations

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
20/01	Council's Resilience and Financial Sustainability				
	Residual Risk	Low			
	Impact	Medium			
	<p>The Council's forecasting contains significant indicative provisional funding gaps in the coming years (approximately £100m per year after the 2020/21 year).</p> <p>Although the Council has identified actions to close the funding gap in the 2020/21 year, work in this area is likely to continue as councils across the country adjust to the true impacts of the Covid-19 pandemic.</p> <p>Recommendation The Council need to continue to plan for future years and proactively identify and mitigate cost pressures and financial risks as they arise.</p>	<p>The Council has already taken unprecedented action by undertaking a comprehensive mid-year assessment of its Medium-Term Financial Plan which has been formally reported to Cabinet in November 2020 as well as being scrutinised by O&S Resources and this has been the baseline for developing budget proposals for both 21/22 and 22/23.</p> <p>The work on the underlying base budget is ongoing with DMT challenge processes which have taken place over January to test all assumptions, pressures and deliverability of savings using the mid year update of the MTFP.</p> <p>Further to this Star Chambers have and are taking place on both a service and issues basis to ensure completeness and robustness of estimates.</p> <p>The overall approach to balancing the medium-term budget is through</p>	February 2021 and ongoing	Interim Chief Finance Officer	<p>March 2021 The comprehensive mid-year assessment of the Medium-Term Financial Plan was formally reported to Cabinet in November 2020 and scrutinised by O&S Resources. This provided the baseline for developing the final budget proposals for both 2021/22 and 2022/23</p> <p>Following the mid-year assessment, DMT budget challenge sessions were held through to December 2020 in addition to the Star Chamber meetings held throughout the year. This provided assurance on the robustness of the budget baseline.</p> <p>The outcome of this comprehensive process and the Local Government Financial Settlement in December 2020 was a Financial Plan 2021 –</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>the implementation of the Delivery Plan which has been approved by Cabinet alongside the refresh of the Medium-Term Financial Plan in November 2020. The Delivery Plan is leading the budget strategy and strategic resource allocation over the period of the Medium-Term Financial Plan.</p> <p>Proposals will be put forward to balance the budget for 2021/22 and an indicative position presented to balance 2022/23 based around the Outline Business Cases work underpinning the Delivery Plan.</p> <p>It should be recognised that medium and long-term financial planning is extremely difficult in the context of the 1-year finance settlement from Government, the uncertainty of the pandemic and Brexit's impact on Birmingham.</p> <p>To reflect this, the Council increased its General Fund Reserve to 4.5% of its net budget and will not need to draw on these reserves to balance the budget. Further to this, the Finance Resilience Reserve remains intact at £84.9m (as at 31 March 2020).</p>			<p>2025 agreed by the City Council on 23 February 2021.</p> <p>The financial plan set out a balanced budget for 2021/22, balanced with no use of reserves to achieve this and which included a contribution to the Financial Resilience Reserve increasing its balance to £114.5m to improve the Council's financial resilience.</p> <p>The budget outlook for 2022/23 has an expectation that the Delivery Plan process will produce £38.5m of proposals.</p> <p>In the context of only a single year financial settlement from the Government, the Financial Plan does indicate a funding gap in 2023/24 of £76m rising to £80m by 2024/25.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>Additionally, £60m has been identified from other reserves that is available to be used to invest to ensure that the Final Business Cases which will be complete by 31 March 2020 in the Delivery Plan are fully funded. The Final Business Cases are required to balance the budget in 2022/23.</p> <p>To date the Covid tranche 4 grant from 2020/21 and the recently announced Covid tranche 5 grant for 2021/22 have been set aside in a specific Covid Reserve to mitigate cost pressures and financial risks relevant to Covid. They provide a significant level of additional financial resilience.</p>			
20/02	Independent Review of the Council's Waste Service				
	Residual Risk	Low			
	Impact	Low			
	The Non-Executive Adviser for Waste Management and Industrial Relations stated in July 2020 "The Council has not yet concluded its review of waste collection services and the independent review is long overdue."	<p>There has been significant progress following Wood's initial review of the service. Performance has improved and there is a good working relationship with the Trade Unions.</p> <p>There are regular meetings chaired by the Cabinet Member to discuss the future of the service.</p>	September 2021	Director of Neighbourhoods (Acting)	<p>March 2021 Work continues to improve performance.</p> <p>Phase 2 modelling is restricted until the Government release their view on food waste, anticipated Summer 2021. The introduction of food waste has a</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>Although progress has been made by the Council during 2019/20, there still some significant decisions which still need to be made in the near future about the provision of the waste service.</p> <p>Recommendation We recommend that the Council continues to work closely with Wood to ensure that Phase 2 of the independent review is completed as soon as is practically possible and ensures that it can maintain effective and consistent relations with its trade union partners regardless of any future changes to the waste service delivery model.</p>	<p>Modelling work has taken place but we are waiting to see what the implications of the Government's review are, especially on food waste, before we can finalise recommendations for the City</p> <p>Regular meetings will be held with the Cabinet Member to discuss progress and the future of the service.</p> <p>Progress on phase 2 of the report has been more difficult as it links to the Government's plans to standardise items collected across England.</p> <p>Finalise the final delivery model taking onboard any changes in requirements.</p>			critical effect on future collection models.
20/03	Long term Highways PFI Solution				
	Residual Risk	Medium			
	Impact	Medium			
	<p>The scale of the affordability gap in the long term PFI arrangements may lead to delays in agreeing revised arrangements between the Council and BHL, and therefore may lead to delays in BHL securing a new, permanent subcontractor.</p>	<p>The Council is fully cognisant of this risk and already places a high priority on putting in a place a long-term replacement subcontract that will deliver the best outcomes for the city within the available resources.</p> <p>Solutions will continue to be explored that provide the opportunity</p>	Ongoing	Assistant Director – Highways & Infrastructure	<p>March 2021 The Council continues to work towards a value for money long-term solution.</p> <p>The Council has reviewed the position on the optimum approach to delivering investment with the available</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>There is a risk that the current arrangements are not delivering the best possible value for money, and that these arrangements may need extending beyond the term of the current agreement.</p> <p>Recommendation The Council should work towards completing negotiations with BHL as a matter of priority, in order to ensure that a new, permanent solution can be put in place as soon as reasonably possible to achieve best value for money.</p>	<p>to ensure the best possible value in delivering these services in the long term.</p> <p>Structural changes as well as financing options are subject to extensive assessment between BCC and BHL supported by the DfT expert, consultants and lawyers. These negotiations are progressing positively.</p>			<p>funding in conjunction with BHL. This remains subject to reaching commercial agreement on the way forward, the parameters for which were reported to Cabinet on 16 March 2021. Any agreement reached will need to be reported to a later Cabinet.</p> <p>An assurance process is in place for the provision of services in the interim to seek to ensure that they deliver the best value for money in the present circumstances.</p>
20/04	Interim Highways PFI subcontracting arrangements				
	Residual Risk	Medium			
	Impact	Medium			
	<p>The interim subcontract was completed on a 'cost reimbursable' basis, meaning that the subcontractor takes little risk in relation to the contract, and the risk sits with BHL. Subject to BHL agreeing its forecast cashflow and payments with the Council, the Council has agreed to ensure that BHL remains solvent by paying its</p>	<p>This recommendation is accepted and acknowledged. A 'cost reimbursable' basis was not the Council's preferred option but has ensured continuity of service and a smooth transition from the previous subcontractor. These were critical elements in enabling this service to move forward.</p>	Ongoing	Assistant Director – Highways & Infrastructure	<p><u>March 2021</u></p> <p>As stated in the response in 20/03 above, the parameters to reach commercial agreement on the way forward, were reported to Cabinet on 16 March 2021 and an assurance process is in place for the provision of services in the interim. The Council</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>reasonable operational costs during the interim period.</p> <p>Recommendation We recommend that the Council ensures proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.</p>	The Council is in the process of putting in place arrangements to support the management of the subcontract through this interim period to provide a satisfactory level of assurance			<p>continues to work to improve this as part of day to day management of the service.</p> <p>This matter has also been covered by the Council's Internal Audit Team and management are taking forward the measures discussed accordingly.</p>
20/05	Partner funding for the Commonwealth Games				
	Residual Risk	Low			
	Impact	Medium			
	<p>Substantial work has been undertaken by the Council to secure the required partner contributions of £75.0m, with £50.0m secured to date.</p> <p>The Council is continuing to work with various potential games partners to ensure that the remaining £25.0m of required partner contributions is secured, but this is not currently in place.</p>	<p>The Council is continuing to work to secure further contributions, whether from existing planned Partners or other funding bodies.</p> <p>Engagement is being undertaken with Government and other Games partners to agree optimal and deliverable funding solutions.</p> <p>£19m of secured contributions now received by the Council.</p>	Ongoing	Commonwealth Games Programme Director	<p>March 2021 GBS LEP Contribution of £20m now received in full, in advance of deadline of 31 March 2021 for this funding source. It is intended that this will be supplemented by drawdowns of other Partner contributions to match levels of eligible actual expenditure incurred by 31 March 2021.</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>Recommendation</p> <p>The Council should take further action to address the current shortfall of £25.0m in partner funding due to fund the capital expenditure budget in the second half of 2021/22 and 2022/23, if it is going to fully mitigate the financial impact of the Games.</p>	Discussion paper presented to CWG Programme Board on 14 January to agree approach to ensure that the remaining £25m of funding is secured.			The remaining substantial risk relating to the current shortfall of £25m is explicitly referenced in the Financial Plan 2021-24 (approved at the Council Meeting on 23 February 2021).
20/06	Pensions Data Provided to the Actuary				
	Residual Risk	Low			
	Impact	Low			
	<p>During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records.</p> <p>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.</p>	<p>The reports used to provide the information are currently being reviewed to ensure that the relevant information is available in the correct format.</p> <p>Management review will be undertaken to ensure that the information provided is accurate.</p>	22 February 2021	Pensions Manager and Finance Manager – Financial Accounting	<p>March 2021</p> <p>Completed. This issue has been resolved for the 2020/21 IAS19 return. The Pensions Manager has checked the calculations on the Pensionable Pay and Contributions and signed to say that the information is accurate. This information was then used by the Finance Manager - Financial Accounts Team for the 2020/21 IAS19 return to the West Midlands Pension Fund</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>Recommendation</p> <p>This was later corrected by the Council in a subsequent data submission to the actuary. We recommend that management put controls in place to ensure that data issues such as this are picked up prior to submission in future.</p>				
20/07	Incorrect Capitalisation of revenue expenditure funded by capital under statute (REFCUS)				
	Residual Risk	Low			
	Impact	Low			
	<p>Our testing of items within Property, Plant and Equipment during 2019/20 identified items of REFCUS spend that had been incorrectly included in Assets Under Construction in the draft financial statements.</p> <p>While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.</p> <p>Recommendation</p>	<p>The recommendation is accepted and acknowledged.</p> <p>Feedback will be provided to the team and relevant managers in the areas where the issues have occurred and reminders given on the requirement to differentiate between spend that can be capitalised and spend that is treated as REFCUS.</p> <p>For the 2020/21 financial statements, meetings have been scheduled to understand the impact of the recommendation and determine actions to review the activity within the current year.</p>	May 2021	Finance Manager - Capital	<p>March 2021</p> <p>The Capital Team has been briefed on REFCUS items and sample checking will take place in March and April for the 2020/21 closedown.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	Management should ensure that processes are in place to differentiate between spend that can be capitalised and spend that is being treated as REFCUS.	<p>For 2021/22 financial year an internal monitoring framework will be established to assist in sample checking. It will be the responsibility of the Finance Manager to implement procedure with regular monthly sample checking throughout the financial year.</p> <p>Proposed timeframe as follows;</p> <p><u>February 2021</u> Team briefing on the need to ensure clear differentiation between spend that can be capitalised and spend that is treated as REFCUS.</p> <p><u>March 2021</u> Establish an internal monitoring framework to sample check items settled to Assets Under Construction (AUC) and REFCUS.</p> <p><u>May 2021</u> Implement internal monitoring framework and commence sample checking of items settled to AUC and REFCUS on a monthly basis.</p>			

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
20/08	Incorrect capitalisation of revenue spend by schools				
	Residual Risk	Low			
	Impact	Low			
	<p>Our testing of items within Property, Plant and Equipment during 2019/20 identified items of revenue spend that had been incorrectly capitalised by schools in the draft financial statements.</p> <p>While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.</p> <p>Recommendation</p> <p>Management should ensure that processes are in place to ensure that the capital spend submitted by schools is reviewed for accuracy before it is incorporated into the Council's financial records.</p>	<p>The recommendation is accepted and acknowledged.</p> <p>Feedback will be provided to the team and relevant managers in the areas where the issues have occurred.</p> <p>A review of the current process for monitoring school capitalisation will be undertaken.</p> <p>Proposed timeframe as follows;</p> <p>January 2021</p> <p>Establish a meeting with finance team to discuss the background to the issues which have occurred.</p> <p>Meetings scheduled and preparation for the closedown of the 2020/21 accounts has started</p> <p>Review of current processes for monitoring school capitalisation.</p>	31 March 2021	Finance Manager - Capital	<p>March 2021</p> <p>Schools capitalisation will be reviewed on a sample basis to check for incorrect items being capitalised.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		March 2021 Feedback and training to service colleagues ahead of the closure of accounts for 2020/21.			
20/09	Assets valued at below £50,000				
	Residual Risk Low				
	Impact Low				
	<p>The Council's policy for the revaluation of Property, Plant and Equipment states that all assets valued at less than £50,000 will be included in the financial statements at £nil value.</p> <p>There is a risk that in aggregate, these assets could be significantly understating the Council's Balance Sheet.</p> <p>Recommendation</p> <p>Management should keep a high-level record of assets where this de minimis has been applied so that an assessment can be made as to whether there is a risk of material misstatement in the PPE balance in future years.</p>	<p>The number of items that are classed as de minimis because they are valued at less than £50,000 results in a maximum risk to the Council that is significantly below materiality.</p> <p>For valuations carried out in 2020/21 and future years, information will be maintained for assets valued below the de minimis value of £50,000, identifying the value that has been calculated for the particular assets in question.</p> <p>Valuers will maintain a record of actual values for all assets and those below the de minimis value will be recorded to identify any potential risk to the carrying value of non-current assets on the Council's Balance Sheet.</p>	30 April 2021	Assistant Director of Property	<p>March 2021</p> <p>Valuations are produced for each asset and a record kept of the value even if this is de minimis.</p> <p>The valuation figure is also reported as part of the valuation process so it may be included on the Council's Balance Sheet if necessary.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
20/10	Intra-group consolidation adjustments				
	Residual Risk	Low			
	Impact	Low			
	<p>After preparation of the financial statements, the finance team identified 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.</p> <p>Recommendation</p> <p>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.</p>	<p>A peer review process will be enhanced to ensure that VAT is understood and excluded from the intercompany elimination process. Written procedures and checklist will be completed to aid review.</p> <p>Preparation for closedown has started and this will form part of the procedures.</p>	28 February 2021	Finance Manager – Financial Accounts	<p>March 2021</p> <p>Procedures are in progress to ensure the reviewer knows what to look for in terms of VAT and other matters pertaining to Group.</p>
20/11	Open purchase orders in the general ledger				
	Residual Risk	Low			
	Impact	Low			
	<p>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</p>	<p>A review is being undertaken of open purchases orders so that those that are no longer required can be closed. This will greatly aid the migration of appropriate activity to</p>	Continuous	Interim Chief Finance Officer	<p>March 2021</p> <p>The level of open purchase orders is regularly monitored and work is regularly undertaken to clear these. The</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>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.</p> <p>The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes.</p> <p>Recommendation</p> <p>We recommend 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.</p>	<p>Oracle Fusion when it is implemented.</p> <p>Progress will be monitored through the 1B programme.</p> <p>Unfortunately, the closure of open purchase orders can be time consuming as it requires closed codes or vendors to be reopened where necessary to then close the purchase order.</p> <p>Reports have been run to review the level of open purchase orders so that progress can be monitored during the year.</p> <p>Progress will be monitored during the year to ensure that final migration to Oracle will be as efficient as possible.</p>			<p>work to close old open purchase orders can be time consuming.</p> <p>Many POs up to and including March 2018 have now been blocked.</p> <p>Data cleansing work stops whilst the year end accounts work is undertaken by Finance staff to avoid disrupting any processes</p> <p>Work will continue early in the new financial year to data cleanse POs dated April 2018 onwards with a view to completing the task prior to the introduction of Oracle.</p>
20/12	Capital Commitments				
	Residual Risk	Low			
	Impact	Low			
	<p>Through performance of our testing, we have noted that the Council's capital commitments note has been prepared based on business cases and on estimated spend to date. While we are satisfied that this does not give rise to a risk of material</p>	<p>The recommendation is accepted and acknowledged.</p> <p>The commitments working papers will be reviewed more stringently as part of the 2020/21 closure of accounts.</p>	30 April 2021	Finance Manager – Capital	<p>March 2021</p> <p>Team members have been briefed on the requirements of the Capital commitments note, utilising contracted amounts and actual expenditure and</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>error in the disclosure note, this disclosure should be prepared based on contracted amounts and actual expenditure against these at the end of the year.</p> <p>Recommendation</p> <p>We recommend that in future years management take care to use the correct source information for this disclosure.</p>	<p>Feedback will be provided to the team and relevant managers in the areas where the issues have occurred.</p> <p>Proposed timeframe as follows;</p> <p><u>January 2021</u></p> <p>Meeting to be arranged as part of preparation for 2020/21 closedown</p> <p><u>February 2021</u></p> <p>A review of the working papers will be undertaken within the finance team.</p> <p>Correct source information and working papers will be identified to assist in the calculation of contracted commitments.</p> <p><u>March – April 2021</u></p> <p>Stringent reconciliation of the relevant closedown working papers and the source information will be incorporated as part of the closedown process for 2020/21.</p>			<p>work has started in March to prepare for this note.</p> <p>The workings to the final note will be reviewed in April and May prior to finalising the Statement of Accounts.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		Ongoing The above practice will be imbedded as 'business as usual' for future years.			
20/13	Heritage Asset Valuations				
	Residual Risk	Low			
	Impact	Low			
	<p>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 is 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.</p> <p>Recommendation</p> <p>We recommend that management consider commissioning an external valuation of this asset.</p>	<p>The Council's approach to valuation of heritage assets complies with the Code for production of financial statements.</p> <p>Paragraph 4.10.2.9 of the Code of Practice on Local Authority Accounting (the Code) states, respect of Heritage Assets "Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current"</p> <p>The Council will continue to keep its insurance coverage under review.</p>	31 March 2021	Head of City Finance – Financial Accounts	<p>March 2021</p> <p>The Council's approach to valuation of heritage assets complies with the Code for production of financial statements.</p> <p>The Council will continue to keep its insurance coverage under review.</p> <p>The current arrangements, outlined above, are Code compliant, therefore, this will be the approach taken for the foreseeable future. Should there be a change in process, an amended response will be provided.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>Heritage assets contained within Thinktank have not been formally valued, as consistent with the remainder of the Council's Museum and Library collections. As identified within the accounting policies Heritage assets are carried at insurance value as it is not practicable to obtain formal valuations at a cost that is commensurate with the benefits to users of the financial statements. Once a formal valuation is undertaken, the Council would be required to undertake further valuations to ensure that the carrying value remains current.</p> <p>Whilst a formal valuation of the Heritage asset collection is impracticable, given the scale and complexity, the insurance valuations used within the statement of accounts are regularly considered to ensure that insurance coverage remains relevant to the needs of the Council.</p>			

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
19/04	Under accrual of expenditure				
	Residual Risk Low				
	Impact Low				
	<p>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.</p> <p>In previous years, similar issues around the completeness of expenditure had been noted.</p> <p>Recommendation 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.</p> <p>Update 2019/20 As part of the Council's closedown process, in advance of preparing the outturn report and the financial</p>	<p>Regular reports are run on the level of procurement activity to identify those areas where there are delays in the payment of invoices or where procurement activities are not in line with Council processes. These reports are shared with Directorates so that appropriate action can be taken.</p> <p>The outcomes from the Audit Findings Report and its recommendations have been shared with the Council Leadership Team to highlight the issue.</p> <p>Finance Business Partners will also brief Directorate Management Teams on the issues identified and the action required and procedures to be followed to meet appropriate accounting requirements.</p> <p>The Voyager Newsletter sent out to staff will include articles on the issues identified and the actions that will be required to ensure future compliance.</p>	Continuous	Interim Chief Finance Officer	<p>March 2021</p> <p>Guidance/instruction relating to processes for the 2020/21 year end has been circulated to CLT and Directorate budget holders via Directorate Finance teams.</p> <p>Accrual process training has been provided to finance staff and school business support staff.</p> <p>Delayed payment reports are run on a regular basis. This information is disseminated to Directorate Finance Teams, who have been requested to discuss at budget holder meetings.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>statements, a review of outstanding purchase orders and invoice clearance was undertaken to ensure appropriate entry into the accounts. Major payments made in April and May 2020 were reviewed to check the financial year in which the expenditure should be recorded and whether accruals had been made.</p> <p>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 has had to be performed. We will continue to follow up on this recommendation in future years.</p>	<p>Reports on procurement activity will be run regularly at the year end to try and capture activity within the appropriate financial year.</p> <p>The preparation for the closure of the 2020/21 accounts has started and reports are being run on procurement activity to identify issues and problem areas so that action can be taken at an early stage.</p>			
19/03	Errors noted in property valuations				
	Residual Risk	Low			
	Impact	Low			
	<p>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.</p> <p>Recommendation Appropriate review should be included as part of the valuation</p>	<p>Whilst the review in 2019/20 concentrated on the appropriateness of the valuations carried out, this will now be extended to include the administration of the transfer of information from valuation to database.</p>	Immediate	Head of Property Valuation and Sales	<p><u>March 2021</u></p> <p>Appropriate checks have now been put in place to avoid any further errors. Please refer to the flow chart in Appendix 2.</p> <p>All internal valuations are checked and signed off by a senior officer</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>process to ensure that any errors in valuation are identified and resolved.</p> <p>Update 2019/20 A two-tier checking system has been put in place with a peer review by an appropriately qualified surveyor followed by a management review by the Head of Service. An independent professional review of all cyclical valuations undertaken by in-house valuers has been carried out by Avison Young's valuation team who specialise in valuations of this nature.</p> <p>Our audit work in 2019/20 has again identified issues in relation to the valuations performed for the purposes of the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.</p>				<p>A second independent review will take place which will cross reference the valuation information from the data base with the valuation certificate.</p>

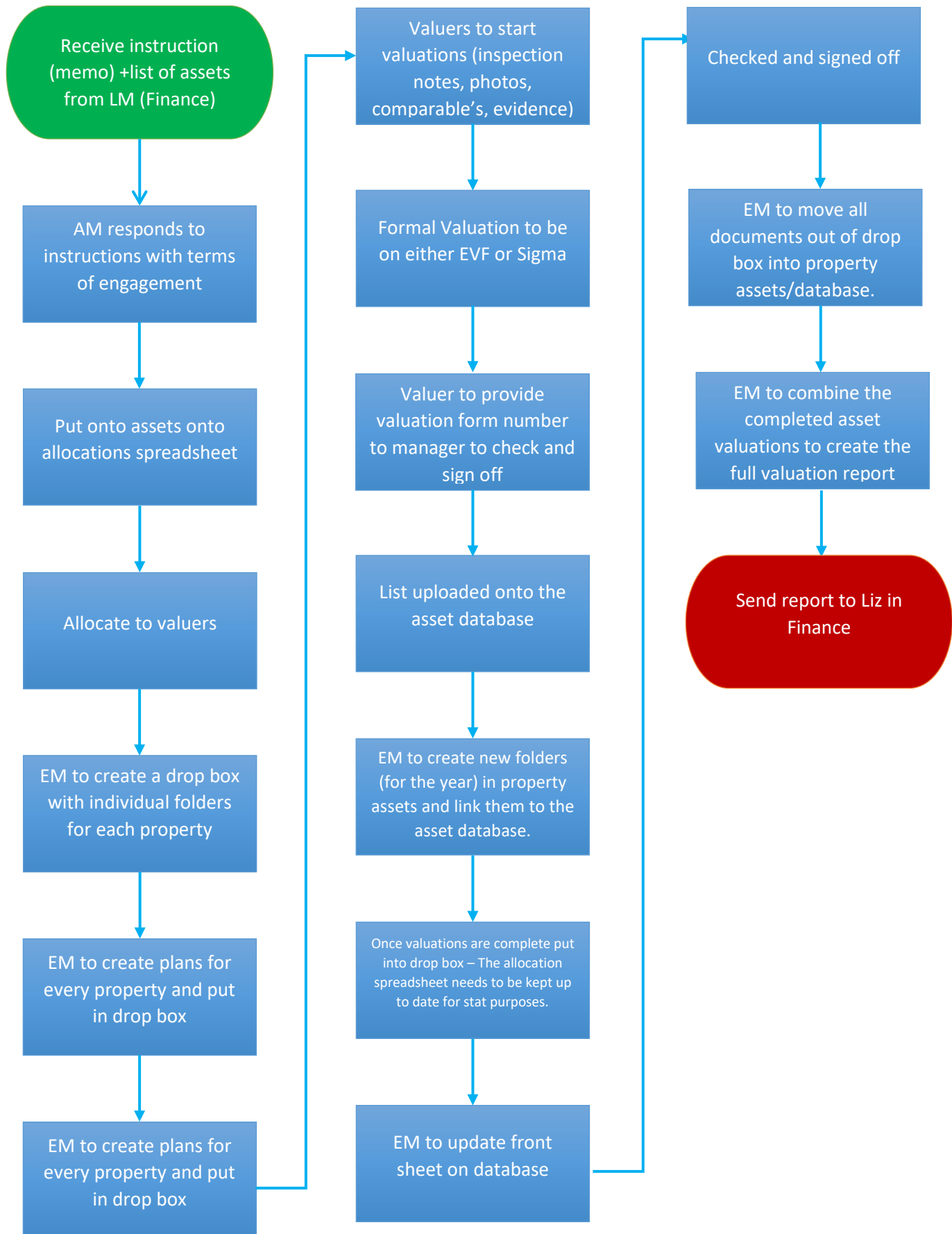
Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
19/02	Disposals omitted from the prior year				
	Residual Risk Low				
	Impact Low				
	<p>An asset with a net book value of £9.4m was disposed of in 2017/18 but this was not accounted for until 2018/19.</p> <p>We were satisfied that this was an isolated incident due to the unusual nature of the arrangement, and there was no material risk to the 2018/19 accounts.</p> <p>Recommendation The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year.</p> <p>Update 2019/20 The Council informed us that the Legal, Finance and Property teams have met, with a view to tightening procedures and the sharing of information. Processes have been implemented to ensure that completion memos are recorded on IPMS and subsequently reconciled with cash receipts, with any differences highlighted at the earliest opportunity.</p>	<p>Property Services will ensure that clear instructions are sent to Legal & Democratic Services, Property Records Team and relevant stake holders to facilitate the disposal of assets in an appropriate manner.</p> <p>Legal, Property and Finance staff will meet to share information on property transactions and ensure that processes are in place to capture relevant information and are being followed.</p> <p>Reconciliations will be undertaken during the year of disposals to identify any mismatches in information.</p> <p>The error identified in 2019/20 was an isolated incidence and resulted from human error. Further checking will be put in place to ensure movements are reconciled.</p>	Immediate	Assistant Director, Property Services	<p>March 2021 Assets sold in year are reported via a completion memo.</p> <p>All disposals continue to be monitored on a monthly basis at the capital receipts meeting and appropriate memos issued.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>Where external legal support is used the agreement will include the requirement to provide a completion memo for ensuring property records are maintained appropriately. All transactions are monitored on a monthly basis by Property Services Officers at each Capital Receipts meeting.</p> <p>Our testing of disposals recorded in the 2019/20 financial statements has again identified an asset that should have been derecognised in the previous financial year. At the time of writing this report, further testing is in progress to assess the potential impact of this on the financial statements.</p> <p>We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.</p>				
19/06	Multiple Accounts assigned to a single user				
	Residual Risk	Low			
	Impact	Low			
	We identified a high number of users with multiple accounts within SAP. Whilst some of these are	The Firefighter role is required to ensure the integrity of SAP	Continuous	Finance Manager – SAP BSC	March 2021 Monthly checks to validate the assignment of Firefighter

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>required for FireFighterID purposes, it appears that some are unnecessary.</p> <p>Recommendation Management should consider which users need multiple accounts within SAP and remove access to those where this function where is it not required.</p> <p>Update 2019/20 The Council's view is that the level of access identified in the recommendation is required to ensure that system functionality can be maintained. Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.</p>	<p>SAP BSC will carry out a monthly check to ensure that all Firefighters are valid.</p> <p>Access for Firefighters will be revoked where they are no longer required.</p> <p>Birmingham audit has been asked to undertake a review and report on the matter and identify if any additional checks are required.</p>			<p>access are ongoing and remedial action taken where a change to access is identified. In addition, a system audit log which identifies when a user logs onto the system using a Firefighter ID is reviewed on a regular basis.</p>
18/03	General IT controls				
	Residual Risk	Low			
	Impact	Low			
	<p>As part of our review of IT controls, we identified an excessive number of users with inappropriate access to high risk T-codes within SAP. Our IT audit identified 109 users with potentially inappropriate access out of 668 users tested due their higher risk nature.</p>	<p>The majority of the transactions listed here will be assigned to BASIS only (the team who deal with the core of the system – these transactions are appropriate for this team to use) and most within their firefighter id. The rest have been reviewed after previous audits and deemed appropriate All users with</p>	Immediate	Finance Manager -SAP BSC	<p>March 2021 SAP is interrogated daily to check for SAP_ALL access and action is taken to remove or amend as required.</p> <p>Periodic checks are made to validate the critical transaction list held in SAP.</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>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. We noted this is primarily due to the current Firefighter setup and the fact that 8 users have SAP ALL access.</p> <p>Recommendation Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only.</p> <p>Update 2019/20 The Council's view is that the level of access identified in the recommendation is required to ensure that system functionality can be maintained. Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.</p>	<p>access to any of these transactions will either be support personnel, or in the case of SM37, users within the business. (SM37 monitors jobs run in the background in SAP. Due to the size and complexity of BCC's ledger, it's recommended that large reports are run in the background to reduce stresses on BAU processing).</p> <p><u>Response from BCC</u> User access to critical transactions is reviewed regularly with access to areas such as SAP_ALL reviewed daily. Appropriate action is taken to remove or amend as required.</p> <p>Birmingham audit has been asked to undertake a review and report on the matter and identify if any additional checks are required.</p>			



Public Report

Birmingham City Council

Report to Audit Committee

30 March 2021



Subject: Group Company Governance – Informing the Audit Risk Assessment

Report of: Rebecca Hellard, Interim Chief Finance Officer

Relevant Cabinet Member: Councillor Brigid Jones

Relevant O & S Chair(s): Councillor Sir Albert Bore

Report author: Alison Jarrett

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference: 008740/2021		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

This report asks Members to consider responses from the Council's group companies on a questionnaire on their Audit Risk Assessment. This report has been presented to Cabinet Committee Group Company Governance who considered the content but had no concerns to raise with Audit Committee.

2 Recommendations

- 2.1 Members are asked to consider the responses from the Council's group companies and advise Audit Committee of any issues identified.

3 Background

- 3.1 The Council has created a number of companies that fall within its sphere of control, either as wholly owned subsidiaries, associates where the Council has significant influence, Joint Ventures or other arrangement. The Council has to consider whether there are risks to the Council either through misuse of funds or misstatement of activities.
- 3.2 An exercise is carried out each year to determine the “Group Boundary”, that is to define which subsidiaries, associates and joint ventures are consolidated with the Council’s financial statements to produce Group Accounts. The larger entities within the overall Council group boundary have been asked to provide information through the completion of a questionnaire to allow Members to gain assurance that funds are being used efficiently and effectively and that information provided in respect of their financial statements may be relied on. The assurance statements have been broken down into three main areas:
- Company Environment – looking at the governance arrangements of the company
 - The Identification, Mitigation and Reporting of Risk – looking at how the company manages risk
 - Financial Statements – looking at factors that may impact on the company’s financial health and financial statements.

The responses provided are attached at Appendix 1.

- 3.3 Audit Committee is responsible for signing off the Council’s financial statements, including relevant group accounts, in due course. As part of this sign off process, members of the Audit Committee will need to be confident that the information presented represents a ‘true and fair view’ of the financial position of the group and that the accounts are materially correct.
- 3.4 Members are asked to consider the responses received and identify any issues that it would wish to raise with Audit Committee for their consideration and further review.

4 Options considered and Recommended Proposal

This report provides information to Members on governance and financial arrangements within group entities that will be considered for consolidation in the Council’s group accounts.

5 Consultation

- 5.1 The Chair of the Committee has been consulted in the preparation of this report. The report has been presented to Cabinet Committee Group Company Governance at their meeting on the 18th March 2021. That Committee did not raise any items of concern for the attention of Audit Committee.

6 Risk Management

- 6.1 This report sets out information on external organisations associated with the Council and contributes to the overall governance process for group companies.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- a) The production of annual group accounts is a statutory requirement to consolidate entities that are controlled by the Council and which are material to its activities.

7.2 Legal Implications

- a) Section 151 of the Local Government Act requires the Chief Finance Officer (as responsible officer) to ensure proper administration of the Council's financial affairs.

7.3 Financial Implications

- a) The Council is required to produce group accounts where it controls external organisations where the level of activity is considered to be material to the entity.

7.4 Procurement Implications

- a) There are no procurement implications directly arising from this report.

7.5 Human Resources Implications

- a) There are no human resources implications directly arising from this report.

7.6 Public Sector Equality Duty

- a) There are no equality duty or equality analysis issues relating to the proposals set out in this report.

8 Background Documents

None

9 Appendices

Responses from

Acivico Limited

Birmingham Airport Holdings Limited

Appendix A Birmingham Airport Management Assurance

Birmingham Children's Trust C.I.C.

Birmingham City Propco

Finance Birmingham Limited

InReach Limited

The National Exhibition Centre (Developments) Plc

Paradise Circus Limited Partnership

Appendix B – Paradise Circus Limited Partnership

PETPS (Birmingham) Limited

PETPS (Birmingham) Capital Limited

PETPS (Birmingham) General Partner Limited

PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	<p>Acivico Board Directors are provided with an induction on appointment to ensure their responsibilities are understood and they have the tools necessary. A Board Development and Priorities workshop was held with Board Directors, Group Leadership Team and Irwin Mitchell solicitors 19 November which provided all Board Members and Group Leadership Team with a refresher of the roles and responsibilities of Directors. The workshop also covered a skills matrix for Board members to inform ongoing development of Board members.</p> <p>The Group Leadership Team has objectives it is working to and attends events and training to maintain their skills to fulfil their objectives.</p> <p>All current Acivico 'officer' roles (senior managers, etc.) are aligned to BCC job descriptions and person specifications, ensuring the rights skills and competencies are present to perform their roles.</p> <p>Regular reviews of performance by line management is undertaken.</p>
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Acivico company Directors attend monthly Board meetings, with all executive leadership officers (Group Managing Director, Director of Finance & Resources & Director of HR & OD) and regular Audit

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	<p>Committee meetings (Audit Committee is due to meet 7 times during 2020/21)</p> <p>Board members are also invited to the quarterly company update events held by the company</p> <p>The company secretary records attendance of Board members from meetings. Audit Committee is done by an administrator.</p> <p>Additionally, the Board members have attended workshops on strategic items, for example strategic plan, values and workforce development.</p> <p>Directors record of attendance is currently 80.8% for 2020/21 (as at December Board meeting) with 3 of the 6 Directors maintaining a 100% attendance during this period.</p>
Please explain the system of governance and the financial control environment within the company	<p>Acivico operate a Company Governance Framework which outlines governance and financial controls (standing orders) within the company. This includes Board members.</p> <p>There is Terms of Reference in place for Board and Audit Committee functions which outlines the governance and financial control environment.</p> <p>Audit Committee provides an advisory and scrutiny role for the effectiveness of financial and non-financial performance, scrutiny of the statutory accounts and reviews matters referred to the Committee from the Shareholder, Board or Group Leadership Team. The audit plan includes the following reviews for 2020/21 being undertaken by</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	<p>Birmingham Audit:</p> <ul style="list-style-type: none"> • Post implementation review of IT systems (finance) including financial system controls • GDPR compliance and data security • Financial resilience. <p>Monthly financial reporting is undertaken within the companies. A challenge session is held with the relevant Acivico Director and Sector leads (Heads of Service) to review financial reporting and projections. Acivico Board members receive monthly reports during Board. Acivico Audit Committee receives the latest finance board report for scrutiny.</p> <p>The finance report considers financial risks and issues</p>
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	<p>The Acivico Director of Finance and Resources leads the monthly challenge sessions.</p> <p>The Acivico Group risk register is regularly maintained and reported to each Audit Committee. Audit Committee has a programme of work for 2020/21 which incorporates reviews including an Internal Audit work plan (as above). The standing agenda also includes a statement to be made by both the BCC Assistant Director of Internal Audit and the Acivico Director of Finance and Resources to confirm that they are not aware of any matters concerning risk, internal control, and compliance.</p> <p>As part of the annual report Acivico's Audit Committee prepare a report on the statement of internal controls.</p> <p>To date, a draft internal audit report has been issued for GDPR and</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	<p>management response is being considered. All activities are scheduled to conclude during Qtr. 4 in preparation for preparing the statutory accounts.</p> <p>Audit Committee have a work programme. The content of these reports is fed into Audit Committee with escalation to Board as necessary. To date, no reviews have identified internal control issues.</p>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	<p>The current three-year Business Plan was approved by Acivico Board February 2020 before the pandemic. We have continued to report against the financial plan. At the outset of the pandemic, focus was on cash flow and going concern status with weekly updates to Board, GLT and the staff on our position. Cashflow has continued to be reviewed monthly and reported to Board regularly throughout this period within the monthly Finance Board reports. Going concern is a consideration for each monthly report.</p> <p>The company is currently operating under a going concern assurance letter from the council. Going concern is reviewed in accordance with ISA570, takes into account financial risks, trading position including pipeline and financial ratios produced by the Group.</p> <p>Remedial action is incorporated within a mitigation plan and tracked monthly, reporting outcomes to the Acivico Board.</p> <p>Monthly meetings with the Shareholder representative and Director of Finance and Resources continue to review financial matters.</p> <p>The business plan for 2021/22 first draft was shared with November</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	Board and is due to be approved by Board in February 2021. The business plan is currently being split between Acivico Limited and its subsidiary companies and the newly created Acivico Professional Services Limited.
What is the company's approach to the development of business continuity plans.	<p>Acivico Business Continuity Plans are being refreshed as the company is implementing new IT systems and business processes are being reviewed.</p> <p>Each company business unit is responsible for updating and refreshing their Business Continuity Plan.</p> <p>Given the changes within Acivico, there is a risk contained within the Group Risk Register regarding overarching arrangements for business continuity.</p> <p>The pandemic saw a temporary pause to the ICT transformation and business process reengineering programme. A transformation team has been put in place to conclude this activity which will also incorporate refreshed BCP's for each area.</p> <p>However, the GLT has ensured BCP arrangements were in place in response to the pandemic and lockdown arrangements. This was done through an Incident Management Response Team before moving to an Operational Recovery Group approach.</p>
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations.	Policies were approved by Board in February 2020. All staff were required to complete an awareness training course on Acivico's training platform. Awareness campaigns were conducted around the building and staff briefings.

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	<p>On a day to day basis, any escalations regarding compliance with GDPR are reported to the Acivico Governance Manager or GLT member. The policy is followed in investigating any escalations and reported to Audit Committee.</p> <p>As part of the Audit Committee work programme for 2020/21, Birmingham Audit have conducted a review and submitted a draft response to Acivico during mid-December for management response.</p>
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	<p>Financial risks identified in the monthly Group Finance Report presented to Board. Audit Committee receive the latest available report for Scrutiny.</p> <p>The Group Risk Register is refreshed regularly and is a standing item on the Audit Committee agenda. The operational risk registers are shared with Audit Committee at six-month intervals.</p>
Please set out your management's processes for identifying and responding to risks of fraud.	<p>The Acivico Company Governance Framework outlines the process for individuals to report potential irregularities or suspected fraud. The company also has an anti-bribery and fraud policy and anti-money laundering policy. Training on anti-bribery and corruption (ABC) has been identified for inclusion in the Company's new e-learning platform go1.</p> <p>The Acivico Group Leadership Team are kept informed</p> <p>As outlined earlier, Acivico Audit Committee standing agenda also</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	<p>includes a statement to be made by both the BCC Assistant Director of Internal Audit and the Acivico Director of Finance and Resources to confirm that they are not aware of any matters concerning risk, internal control, and compliance. There have been no instances for the period April 2020 – December 2020.</p> <p>Since taking on the end to end process for P2P and accounts payable we have put in place a process for onboarding vendors and customers which also includes use of Credit Safe which allows bank accounts to be verified as part of a due diligence check for companies and organisations. We also have regular discussion and meetings with our banking provider on preventing fraud.</p> <p>For IT systems, we use the security incident reporting procedure.</p>
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	See previous response
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	<p>Fraud could occur during the procure to pay process, accepting cash within building control or an employee abusing the time recording system as examples. We have in place policies and company government framework to mitigate against fraud including segregation of duties.</p> <p>Cyber security and other malware attacks also remain a consideration for fraud. We have in place processes through IT security tools and escalation to the IT Manager for any potentially fraudulent activities such as emails pretending to be from senior management requesting tasks to be undertaken. We continue to</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	raise awareness with staff on these matters. Acivico use separation of duties and weekly MI reporting checks to help mitigate against fraudulent activity. The Acivico Director of Finance and Resources further discusses this matter with External Auditors as part of the planning for the external audit.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	See earlier responses
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	To date during 2020/21 no matters have arisen. This is a standing item on the Audit Committee agenda.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Acivico's process is outlined in the Company Governance Framework. BCC Internal Audit attend Acivico Audit Committee. If required, the Acivico Director of Finance and Resources would notify the council.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	The council (in its capacity as shareholder of Acivico) has a representative attend the Board meetings and therefore receives the monthly Acivico Group Finance report. Each month the Acivico Director of Finance and Resources meets

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	with the Shareholder representative (BCC Chief Finance Officer or delegated representative) to discuss finance matters and any areas of concern of the Shareholder
How would the company communicate any breach of GDPR requirements to the Council.	Acivico Governance Manager would investigate, report to the Group Leadership Team, Acivico Audit Committee, Acivico Board and then via the Shareholder representative
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<p>Acivico currently secure nearly all their insurance policies via the council's insurance providers. A schedule of policies is available if required.</p> <p>Other specific insurances are based upon the company's identified needs such as Employment Tribunal Actions.</p> <p>An annual report of insurance is provided to Audit Committee. Insurance provision is in line with the BC and DCFM contracts. For Acivico Traded Services this is based upon specific requirements depending on activity outlined in individual contracts with clients.</p>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	<p>No claims have been made against the company or its Directors that have not been reported to the company's insurers.</p> <p>We are not aware of any current incidents that may lead to a claim.</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	<p>Accounting policies are reviewed in accordance with FRS102 where applicable and other local policies, for example the debt policy. Acivico finance team members use both CIPFA and the Financial Reporting Council to keep up to date on accounting developments.</p> <p>Any changes to the accounting policies contained within the Statutory Accounts are shared with Audit Committee in advance of preparing the Statutory Accounts.</p> <p>Accounting policies are reviewed and presented to Acivico Audit Committee</p>
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	<p>A meeting Acivico's external auditors to start planning for 2020/21 will be done during Qtr. 4 2020/21. Going concern was a significant consideration for auditors last year as the pandemic coincided with Acivico's year end. It is anticipated that this will remain a significant area of interest for the Auditors including Brexit.</p> <p>Acivico has set up Acivico Traded Services Limited during 2019/20 which is now trading. The accounting reference date will require to be changed to 31 March 2021. The first-year end was 31 August 2020 but had minimal trading activities.</p>

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
	<p>There remain a number of activities in discussion with the Shareholder, relating to governance and the future operating model of the Acivico Group, which may impact on the financial statements. Although Acivico Professional Services Limited (APSL) is not yet trading it is expected to be that Acivico Limited will hold a minority Shareholding and will be equity accounting with an investment in APSL. Taxation advice is also being sought.</p> <p>Acivico has several loans with the council as Borrower (some of which will be executed during Qtr. 4 2020/21).</p> <p>Finally, Acivico has implemented its own financial IT systems during 2020/21 which will impact on audit approach. External Auditors are aware of this change.</p>
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	<p>At the time of returning this questionnaire, there are no known events</p> <p>However, Acivico Limited Board have served the break clause on their lease of Louisa House as part of its strategic plan. This will mean that the fixed assets will be depreciated in full.</p>
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	The council provide the guarantor for the lease of Louisa House and pension funds

Birmingham City Council 2020/21 Informing the Audit Risk Assessment

Group Accounts Preparation

Appendix 1

ACIVICO LTD, ACIVICO BUILDING CONSULTANCY LTD, ACIVICO DESIGN CONSTRUCTION AND FACILITIES MANAGEMENT LTD, ACIVICO TRADED SERVICES LIMITED	
Question	Response
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	The meeting with the external auditor has not yet taken place. However, no issues were identified during the 2019/20 audit, Acivico has one minor risk to address as part of implementing new IT systems for building control income which was acknowledged by our auditors.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	<p>The impact of trading through the pandemic. This is well documented and shared with Board and the Shareholder representative on a monthly basis. The business plan is currently being refreshed to take this into consideration.</p> <p>The future operation model and group accounting considerations for Acivico Professional Services Limited. Acivico Limited will have a minority shareholding in this company. This is expected to provide an overall benefit once established and operational.</p>

BIRMINGHAM AIRPORT	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	Directors are appropriately qualified to ensure they are adequately resourced to carry out their duties. Directors continue to have updates and training to keep them up to date on current affairs. Directors are provided with regular updates with relevant information and reports on the Airport.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	The company holds Board working groups/workshops (which are minuted) throughout the year. Directors have access to any information that they request from time to time, which is reported to them in a timely manner. Attendance at Board meetings is noted and recorded in the Board meetings minutes. BCC (Elaine Peach) is also notified of meeting attendance.
Please explain the system of governance and the financial control environment within the company	The group has a number of policies in place to manage its financial risks, along with a risk management programme which is reported to the Board and Audit Committee. Where actions are necessary and not covered by the policies in place, approval is sought from the Board. Enclosed at appendix A is the Airport's Management assurance to Directors which details further information on this process.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	The group is highly regulated and have policies & procedures in place to ensure compliance. Management are adequately qualified to perform their duties. Audits & reviews are undertaken regularly to ensure that the control environment is effective. These are reported through management and internal audit to the Audit Committee. Enclosed at appendix A is the Airport's Management assurance to Directors which details further information on this process.
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going	Ordinarily, the business holds a 10-year business planning model which includes full financial statements. This model is updated on an annual basis

BIRMINGHAM AIRPORT	
Question	Response
concern and how are plans developed for taking remedial action to any adverse changes within the company	<p>to reflect actuals and updated budgets. There is then a regular review of the plan to ensure that assumptions remain valid and engagement is sort from stakeholders throughout the business. A focus of the plan is on cash management and ensuring sufficient funds are available or access to funds available throughout the term to meet both operational and development needs. The plan also allows the business to ensure it remains within financial covenants.</p> <p>In the year 19/20 however, the Covid-19 pandemic has caused significant uncertainty and as a result, the usual 10 year business plan has been replaced by a monthly phased 3 year plan to better understand the short term impact of the disruption on profitability and cashflow. This 3 year plan is updated and reviewed on a monthly basis for the latest actual results and known changes in assumptions, with a rolling 12 months shared with external lenders to satisfy covenant requirements. In addition, a downside sensitivity is included in the review to understand the potential risk on liquidity and covenant conditions. The expectation is once the benefits from the vaccine starts to come into play and there is more certainty on future passenger demands the 10 year plan will be updated</p>
What is the company's approach to the development of business continuity plans.	Engagement with key stakeholders throughout the business to understand the critical systems and processes in place. Understanding then the time criticality should these be compromised and the dependence these have on other systems and processes.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations.	The company has an information security department tasked with ensuring compliance with GDPR requirements

BIRMINGHAM AIRPORT	
Question	Response
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	<p>The risk assessment process is 'fit for purpose' and is supported by a robust internal audit function and external audit review. In addition, we keep proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and group.</p> <ul style="list-style-type: none"> • Annually we set Budgets which outline the forthcoming year's expectations for financial and statistical results. Budgets are a useful function to benchmark and compare actual results against which could potentially highlight inaccuracies with accounting. • The Airport prepares Monthly management accounts (and adopted FRS102 (new UK GAAP) during 2015/16 and the monthly management accounts are prepared on this basis), reporting actual results against budget on a monthly basis in a timely manner. In addition, the report includes Key Performance Indicators (KPIs) which are traffic lighted (red, amber, green) which direct attention to variances from prior year and Budget. The process includes investigating variances to budget with any anomalies identified and followed through to resolution. <p>The management accounts process is a thorough robust process and is able to disclose at any point in time the financial position of the company, subject to any processes that only occur at yearend such as actuarial valuations in accordance with accounting standard FRS102.</p>
Please set out your management's processes for identifying and responding to risks of fraud.	<p>Where risks of fraud are apparent or have been identified by internal audit or external auditors, management responds to these by reviewing existing controls and where necessary implementing additional controls. Consideration to risks of fraud forms part of Management's processes, for example additional controls were implemented to reduce the risk of fraud on changing supplier bank account details.</p>
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	<p>The Airport has a robust Internal Audit (IA) function which periodically reviews the financial functions and findings are reported through to the Airport's Audit Committee (AC).</p>

BIRMINGHAM AIRPORT	
Question	Response
	<ul style="list-style-type: none"> The IA function reports to the Chair of the Audit Committee and reports independently from management to the AC three times per annum. The Executive Board (EB) of directors formally reports to the Board six times per annum, any concerns raised by the EB are followed up with further supporting work and reporting.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	PWC identified during the economic downturn that there had been an increase in fraudulent activities in changing bank details held within supplier payment ledgers, with employee's changing bank details from supplier's details to their own personal details. Immediately following this awareness, The Airport increased its controls in this area and these were subsequently reviewed by the Internal audit and external auditors for satisfactory compliance.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Internal Audit maintain a risk register which is updated by management and is reported to the Audit Committee highlighting any changes. The risk register was last reported March 2020 and this is being updated and presented at the next Audit Committee in February 2021.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	No fraudulent or irregularities have been identified by the Directors or the Internal and External audit process.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	The Airport's Board and Audit Committee include representatives from BCC and therefore any fraud or suspected fraud would be reported to BCC via their representatives on these bodies.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	The Airport's Board includes representatives from BCC and therefore any financial risks would be reported to the Board and hence BCC would be informed through this channel.

BIRMINGHAM AIRPORT	
Question	Response
How would the company communicate any breach of GDPR requirements to the Council.	The Airport's Board includes representatives from BCC and therefore any GDPR compliance breaches would be reported to the Board and hence BCC would be informed through this channel
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	The Airport has a Commercial Crime policy in place with a £5m value (£100k excess). This policy is dependent on rigorous policies and procedures being in place to mitigate fraud. The business operates segregation of duties, along with dual authentication (e.g. supplier payments). Change requests (i.e. bank details) are subject to verification from separate sources to those requesting. An authorisation level hierarchy is in place. The Airport also has an internal audit department to review policy and procedures in place, test effectiveness and advise improvements.
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None to report at this point in time.

BIRMINGHAM AIRPORT	
Question	Response
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	<p>The financial statements continue to be prepared and comply with New United Kingdom Generally Accepted Accounting Practice (UK GAAP) following the adoption in 2015/16.</p> <ul style="list-style-type: none"> To the best of our knowledge using the experience and professional knowledge of staff and external guidance, the financial statements have been prepared in accordance with New UK GAAP and the Companies Act 2006. It should be noted that during 2020/21 there have been no fundamental changes within The Airport which would raise any concerns with regard to the appropriateness of its accounting policies in preparing its financial statements consistently with previous years. <p>We have selected and applied consistently, suitable accounting policies that are relevant to the company's and group's business</p> <ul style="list-style-type: none"> The accounting policies adopted during the year are consistent with those applied in prior years. <p>Accounting Policies are considered with any new area which arises during the year.</p>
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None to report at this point in time.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	<p>The Covid-19 pandemic has significantly impacted travel throughout 2020 and is likely to continue impacting normal trading in 2021. As a result the Airport is making substantial trading losses and many of its customers and suppliers are also impacted. As a result, some customers are at risk of insolvency which would result in an impairment of debtors, this is reviewed on a monthly basis through the Bad Debt Provision. In addition, a number of Investment properties are valued based on estimated future income, at this</p>

BIRMINGHAM AIRPORT	
Question	Response
	<p>time the income is reduced which could result in a reduction in the calculated value.</p> <p>Following a recent series of positive news on vaccines, reduction in quarantine periods and the Governments Test to Release program it is estimated that the Airport will begin to return to normal conditions during 2021-22.</p> <p>The financial impact of this is discussed further in Appendix A.</p>
Please set out details of any indemnities or guarantees that the company has given.	None to report at this point in time.
Please set out details of any indemnities or guarantees that the company has received.	As above
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	<p>The Airport's judgements and estimates made are reasonable and prudent.</p> <ul style="list-style-type: none"> • The Airport makes relatively few judgments and estimates in preparing the financial statements and where the directors have had to make provisions they are reasonable and prudent. • The provisions held are subject to a timed release policy where any greater than three years old are subject to a phased release, provisions held with this policy highlighted during PwC's review and identified within their audit report
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None to report at this point in time.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	The Covid-19 pandemic has been a much longer and deeper impact than first thought, whilst the short term future is difficult to predict it is likely that this will also impact 2021/22 as well, although it is expected that some normal trading will recommence during next year. The business has worked

BIRMINGHAM AIRPORT	
Question	Response
	on a range of scenarios to understand the financial impact of the ongoing pandemic. The financial impact and scenarios considered are discussed further in Appendix A.

Birmingham Airport – 2020/21 Financial Statements, Directors Representations

Management Assurance	Basis																					
a. company staff involved in the preparation of financial statements have sufficient skill and experience.	The key staff involved with the preparation of the financial statements are duly qualified accountants as per below:-																					
	<table><tr><th>Name</th><th>Position</th><th>Institute</th></tr><tr><td>Simon Richards</td><td>Chief Finance and Engineering Officer</td><td>Chartered Accountant</td></tr><tr><td>Chris Baller</td><td>Financial Controller</td><td>Chartered Management Ac'ts</td></tr><tr><td>Karen Chapman</td><td>Management Acc't</td><td>Chartered Management Ac'ts</td></tr><tr><td>Jack Wilcock</td><td>Business manager</td><td>Chartered Accountant</td></tr><tr><td>Jane Clarence</td><td>Financial Acc't</td><td>Chartered Certified Ac'ts</td></tr><tr><td>Charlotte Mills</td><td>Senior Business Partner</td><td>Chartered Management Ac'ts</td></tr></table>	Name	Position	Institute	Simon Richards	Chief Finance and Engineering Officer	Chartered Accountant	Chris Baller	Financial Controller	Chartered Management Ac'ts	Karen Chapman	Management Acc't	Chartered Management Ac'ts	Jack Wilcock	Business manager	Chartered Accountant	Jane Clarence	Financial Acc't	Chartered Certified Ac'ts	Charlotte Mills	Senior Business Partner	Chartered Management Ac'ts
	Name	Position	Institute																			
	Simon Richards	Chief Finance and Engineering Officer	Chartered Accountant																			
	Chris Baller	Financial Controller	Chartered Management Ac'ts																			
	Karen Chapman	Management Acc't	Chartered Management Ac'ts																			
	Jack Wilcock	Business manager	Chartered Accountant																			
	Jane Clarence	Financial Acc't	Chartered Certified Ac'ts																			
	Charlotte Mills	Senior Business Partner	Chartered Management Ac'ts																			
	The staff involved in the financial statements maintain continuous professional development and keep up to date with accounting developments through the institutions they belong to.																					
Any specific issues which arise, guidance is sort from either Pwc or other such qualified advisors to ensure the correct accounting practice.																						
b. there is no relevant audit information of which the company's auditors are unaware.	<p>We have provided the auditors (they) with:</p> <ul style="list-style-type: none">• Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;• Additional information that they have requested from us for the purpose of the audit; and• Unrestricted access to persons within the company/group from whom they determined it necessary to obtain audit evidence. <p>So far as each Director is aware, there is no relevant audit information of which the auditors are unaware.</p>																					
c. we have kept proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and group.	<ul style="list-style-type: none">• Annually we set Budgets which outline the forthcoming year's expectations for financial and statistical results. Budgets are a useful function to benchmark and compare actual results against which could potentially highlight inaccuracies with accounting.• In addition The Airport prepares Monthly management accounts (produced on the basis of New UK GAAP), reporting actual results against budget on a monthly basis in a timely manner. The process includes investigating variances to budget with any anomalies identified and followed through to resolution.• The Airport has a robust Internal Audit (IA) function which periodically reviews the financial functions and findings are reported through to the Airport's Audit Committee. Due to the Covid-19 pandemic the Internal Audit function has been on furlough during 20/21 and the Audit Manager has also recently found alternative employment and left the Airport, as a result here have been no IA reviews carried out during 2020/21. To reassure in the absence of these reviews, there has been no change in the senior finance team, all accounting has been performed in line with previous years (previous years' IA supported strong accounting and highlighted no major concerns) and due to the																					

Agenda Item 06 Appendix D – Management Assurance

Management Assurance	Basis
	<p>pandemic the value of the accounting records has significantly reduced due to the severe impact on traffic.</p> <ul style="list-style-type: none"> In addition the external audit review carried out by PWC on both the controls framework of The Airport, which is an equally important review for certifying accuracy of records, and the yearend statutory review have both demonstrated strong financial records and have highlighted strong controls and no major concerns. The management accounts process is a thorough robust process and is able to disclose at any point in time the financial position of the company, subject to any processes that only occur at yearend such as actuarial valuations in accordance with FRS102 pension accounting standard.
d. our judgements and estimates made are reasonable and prudent.	<ul style="list-style-type: none"> The Airport makes relatively few judgments and estimates in preparing the financial statements and where the Directors have had to make provisions they are reasonable and prudent. The provisions held are subject to a timed release policy where any greater than three years old are subject to a phased release. This policy was updated in 2018/19 with rebates now fully released over 5 years but still held in full for the first 3. This policy was reviewed in year and it was concluded that it is still appropriate and PWC concur.
e. we have selected and applied consistently, suitable accounting policies that are relevant to the company's and group's business.	<ul style="list-style-type: none"> The accounting policies adopted during the year are consistent with those applied in prior years. Accounting Policies are considered with any new area which arises during the year, such as adopting the accounting for the Runway Extension lease arrangement.
f. the financial statements have been prepared under and comply with New United Kingdom Generally Accepted Accounting Practice (UK GAAP)	<ul style="list-style-type: none"> The Airport adopted New UK GAAP (FRS102) in 2015/16. The accounts have been prepared consistently to the prior year To the best of our knowledge using the experience and professional knowledge of staff and any external guidance, the financial statements have been prepared in accordance with New UK GAAP and the Companies Act 2006.
g. A going concern basis is appropriate for the preparation of the financial statements.	<ul style="list-style-type: none"> The Directors have reviewed the prospects for the Group and Company to March 2023 (twenty-four months from the balance sheet date) in the context of the ongoing Covid-19 pandemic and the insolvency of Flybe in March 2020. At the balance sheet date the Group is expected to have very strong liquidity, with a cash balance of £69m (14th December 2020 Mid Scenario). Actions taken to reduce expenditure in 2020/21 have led to cash outflows averaging £7.0 million per month at low passenger volumes. Therefore, on a simple basis, the Group remains compliant with the new Waiver Covenant and has sufficient cash to operate for over 18 months from this date. The Directors have also considered the significant uncertainties facing the Group over the next two years and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response. In assessing the going concern position, the Directors have considered: <ul style="list-style-type: none"> the potential impact of Covid-19 on the group's cash flow and liquidity over the next 24 months, and the associated impact on the covenants in the Group's financing arrangements. Due to the uncertainty over when UK and international travel restrictions will be fully lifted, along with the uncertainty over airlines capacity plans and passenger demand, the scenarios

Management Assurance	Basis
	<p>currently assume from 4 million to 6 million Passengers in 2021/22 (33% to 50% of 2019/20 passengers).</p> <ul style="list-style-type: none"> • The Group and its Directors have proactively reduced cash outflows in both operating and capital expenditure and have utilised the Government's Coronavirus Job Retention Scheme to fund the cost of the two-thirds of employees who have been furloughed. • In addition, waivers on covenant compliance have been granted by lenders to avoid events of default arising from the potential failures against the leverage and interest cover tests at September 2020 and March 2021. A new testing date has been introduced for June 2021 along with a six months forward liquidity covenant, which is tested monthly. • It is the June 2021 covenant test which therefore represents the key uncertainty in the going concern assessment because compliance relies on the timing and pace of recovery in the sector. The Group forecasts to retain a satisfactory cash balance but cannot comply with EBITDA-based covenant ratios unless passenger volumes and revenues recover quickly enough. • Directors have kept shareholders fully informed regarding the projected finances of the Group and the risks around the lending covenants. Shareholders are fully supportive of actions taken to date and are ready to engage in further discussion should more tangible support be required in due course. • After due consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis. However, the impact of the Coronavirus pandemic on the ability of the group to meet its covenant tests represents a material uncertainty that casts significant doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustment that would arise if the financial statements were not drawn up on a going concern basis.
h. all relevant related party transactions have been disclosed	<ul style="list-style-type: none"> • All relevant party disclosures have been included within the financial statements and are consistent with prior year's.
i. key management remuneration is disclosed appropriately	<ul style="list-style-type: none"> • Director's emoluments and Key management for pay and benefits, including pensions, have been disclosed within the notes to the financial statements including separate disclosure in respect of the highest paid Director, in accordance with New UK GAAP.
j. all employee benefit schemes are disclosed	<ul style="list-style-type: none"> • The Director's have made the auditors aware of all employee benefit schemes in which employees of the company and the group participate. These include:- <ul style="list-style-type: none"> • Health insurance • Disability income protection • Life assurance • Retirement benefits • Employee share option scheme • Company car scheme • Staff car parking • Discounted public transport • Child care vouchers

Management Assurance	Basis
k. there is proper treatment of contracts in the financial statements and material contracts have been disclosed to the auditors	<ul style="list-style-type: none"> All contractual arrangements (including side-letters to agreements) entered into by the company and the group have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed.
l. no material breach of laws and regulations impacting the financial statements or involving key staff involved in the production of the financial statements.	<ul style="list-style-type: none"> So far as each Director is aware there are no material breach of laws and regulations impacting the financial statements or involving key staff involved in the production of the financial statements
m. safeguarding the assets of the group and the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities (see representation letter)	<ul style="list-style-type: none"> The Directors acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and hence operate a robust internal control process where periodically systems and processes are reviewed with any findings reported to the Audit Committee. PWC as part of their control audit also review the Airport's control framework again reporting any findings in their audit report to the Audit Committee. No fraudulent or irregularities have been identified by the Directors or the Internal and External audit process during the year.
n. We have complied with taxation requirements of all countries we operate and have brought to account all liabilities for taxation (see representation letter)	<ul style="list-style-type: none"> To the best of our knowledge using the experience and professional knowledge of staff and any external guidance from our tax advisors, Ernst & Young, the financial statements have been prepared in compliance with UK Corporation tax. There have been no significant changes in UK Corporation tax other than change in rates and hence the accounts have been prepared consistently with prior years whilst taking into account enacted tax rates. We are not aware of any non-compliance that would give rise to additional liabilities by way of penalties or interest and there is nothing to disclose regarding Revenue investigations that we are aware of.
o. subsequent events disclosed	<ul style="list-style-type: none"> The impact of the Covid-19 pandemic has been discussed in the Going Concern section (g) above. There are no subsequent events of any material value which the Directors are aware of to disclose.

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	In recruiting Directors the Trust has appropriate selection and evaluation criteria, which is then supplemented by its induction process for new directors. The Trust has a leadership and development programme for directors and holds regular Board development sessions.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	All directors attend regular committee and Board meetings and are also invited to a number of service meetings of a strategic nature. A record of attendance is maintained by the Head of Executive.
Please explain the system of governance and the financial control environment within the company	The Trust's overall governance is led by the Board supported by three sub-committees, which include Performance & Quality, Finance & Resources and Workforce Committees, and the Trust Executive. The Trust has adopted its own Scheme of Delegation which is reviewed on at least an annual basis.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	The Trust has appointed Birmingham Audit to provide an internal audit of its main processes and controls to test and provide assurance to the Executive, Committees and Board.

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	The Trust produced a Strategic Business Plan for 2020/21 which has been signed off by the Council. This business plan is refreshed annually on a rolling basis and reflected the recommendations of the previous Ofsted inspection.
What is the company's approach to the development of business continuity plans.	The Trust has a number of business continuity plans covering specific services and is in the process of developing an overall business continuity plan for the Trust as whole based on advice by the Council's Business Resilience Team. The plans were activated at the start of the Covid-19 pandemic lock down in March 2020 and have been under regular review throughout 2020.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations.	The Trust inherited the levels of compliance with the (25th May 2018) Data protection Act 2018 and GDPR from the Council. To address the specific needs of the Trust an Information Assurance Plan has been developed and is being delivered in parallel to a similar Council Plan. Oversight of the delivery is via the Trust Information Assurance Group chaired by the Trust's Senior Information Risk Officer. The Trust also complies with the Department of Health information governance requirements for the sharing of data between health and social care.

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	The Trust has a corporate risk register and financial reporting is not identified as a significant risk. Operational risk registers are being rolled out across service areas which will include finance, at which further consideration will be given to this. In the meantime risks are monitored and managed by the Trust Executive and financial risk is monitored and managed by the Director of Finance & Resources with support from the Head of Finance and team.
Please set out your management's processes for identifying and responding to risks of fraud.	The Trust has adopted and adapted the Council's fraud policy for its purpose.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	The process of identifying the risk of fraud is overseen by the three Executive Directors in the Trust and would be reported to the Chief Executive and Head of Executive via the Executive meetings.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	<p>The nature of fraud risk across the Trust extends to financial and contractual matters. The Trust also holds petty cash across its operations and has to ensure appropriate controls are in place to avoid fraud. Contract compliance is regularly monitored by the Trust. The Trust also has a whistleblowing policy and referred a previous incident to Birmingham Audit for further investigation, but proved inconclusive.</p> <p>In relation to fraud, case 2019/0564, which began in 2019/20, remains under criminal investigation, but due to the impact of Covid-19 this has not yet moved forward.</p>

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Oversight of the corporate risk register is managed by the Director of Finance & Resources and a report is provided on a quarterly basis to the Finance & Resources Committee, which also undertake reviews ("deep dives") of individual areas of significant risk.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	The Trust is subject to an external audit which tests for error or irregularity. There were no such issues detected during the financial year 2019/20. Suspected frauds or irregularities are referred to Birmingham Audit to investigate which are then subject to a report being provided to the Director of Finance & Resources. Matters of a significant nature are notified to the relevant Executive Director who would then take appropriate action, including notifying the Chief Executive where necessary. The level of awareness is therefore considered appropriate for the Trust.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	This would be via the Trust's Executive and where appropriate reported to the Trust's Finance & Resources Committee and /or Board.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	The Trust meets with the Council on a monthly basis at the Operational Commissioning Group (OCG) at which a monthly financial report is provided, and on a quarterly basis provides a more detailed quarterly financial report to the Council which is then discussed at the OCG. The Trust also meets quarterly with the Council for the Partnership Governance Group at which all strategic risks can be raised and discussed.

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
How would the company communicate any breach of GDPR requirements to the Council.	The Trust has appointed a Data Protection Officer who reports to the Head of ICT, and the latter acts as the Chief Information Officer for the Trust. Any breaches would be reported via the DPO to the CIO, SIRO, and the Information Assurance Group which meets every other month, and the Trust's Executive on at least a quarterly basis.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	The Trust has procured via the Council a series of insurances to cover financial losses in a number of areas. The scope and level of cover for such insurances is subject to annual review by the Director of Finance & Resources.
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	The Trust has received a number of injury claims which have been dealt with by its insurers.
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	The Trust's Director of Finance & Resources is responsible for determining the accounting policies in line with professional accounting standards, and agreeing these with the Finance & Resources Committee. These have been subject to independent review by the Trust's external auditors.

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	The Covid-19 pandemic meant that the approach to external audit was that it had to be completed remotely. In addition, the financial impact of Covid-19 on the Council was significant such that the Trust had to gain confirmation that the Council, as its owner, remained a Going Concern in order to satisfy its own external auditors of the Trust's Going Concern. This caused significant delay in the Trust's ability to secure a signed audit certificate for the financial year ending 31 March 2020 until 21 January 2021.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	<p>The Trust does not currently hold any non-current assets.</p> <p>No changes in current circumstances that may cause impairment are envisaged.</p> <p>The Trust undertakes daily cash flow monitoring and cash management. The Trust secures investments of cash surpluses via the Council's Treasury Team.</p> <p>The Trust's debt relates to debtors only, 82% of which as at 31 March 2020 related to monies owed by the Council to the Trust. Aged debt is monitored on a monthly basis and the Trust buys back "Account Receivable" debt progression services from the Council via a support services agreement.</p>

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
Please set out details of any indemnities or guarantees that the company has given.	The Trust has not provided any indemnities or guarantees which would give rise to a financial commitment, other than standard contractual matters.
Please set out details of any indemnities or guarantees that the company has received.	The Trust also benefits from a number of contractual indemnities and guarantees. A significant contract relating to Priory Education Services Limited was subject to discussion with the Council on termination, in respect of a pensions guarantee, and it was accepted that the Council remained liable in respect of this guarantee.
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	The Trust made provision for the McCloud pensions judgement in line with the Council's accounting position for 2018/19 and this remains in place for 2019/20.
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	<p>The audit findings report of the external auditors was presented to the Trust's Finance & Resources Committee on 29th July 2020 and provided for three medium risks of a less urgent nature which still required further actions. All of which have now been actioned. There were three low risk items which required further work and these are being addressed.</p> <p>The accounts were presented to the Trust Board at its meeting of 22nd September 2020 and the Director of Finance & Resources was given delegated authority to sign the accounts on behalf of the Trust.</p>

BIRMINGHAM CHILDREN'S TRUST CIC	
Question	Response
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	The Trust experienced demand pressure as a result of the number of children in care increasing in 2019/20. This has been the subject of discussion with the Council and a contract variation of £7m was agreed for 2019/20 together with an increase in the contract sum for 2020/21. Despite Covid-19 the Trust delivered against its key performance targets for 2019/20.

BIRMINGHAM CITY PROPCO LTD	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	There has been a change in one directorship following recent retirement and the new director is a City Council professionally qualified planner at Assistant Director grade. The existing director is a City Council qualified property surveyor, also at Assistant Director grade and is a director of other City Council companies. No specific formal training has been provided for Propco, although training has been provided on Company Directorships by Legal Services.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Propco completed its second trading year in March 2020 but due to the impact of Covid the audit has only just commenced (Dec 20). Accounts are due with Companies House by 31 st March 2021 (3 month extension). There have been two Directors meetings (6 th July and 22 nd October 2020) attended by both directors.
Please explain the system of governance and the financial control environment within the company	A Finance Business Partner and Finance Manager oversee all transactions. There are established contracts with PWC for accounting support and VAT/Tax advice and UHY Hacker Young as auditor. As above, the level of transactions with this company are low and monitored against an established business model/forecast spreadsheet.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	All property related transactions are authorised by Property Services (i.e. rent income is raised via Manhattan and expenditure invoices are authorised for payment). The Finance Business Partner and Finance Manager roles are purely to action payment to and from Propco. A few

BIRMINGHAM CITY PROPCO LTD	
Question	Response
	non-property transactions i.e. professional fees are authorised by the directors themselves.
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	This has been well covered for the initial dealings of the company relating to 2 hotels at the NEC but the business plan could evolve to include more commercial property transactions. There are plans being considered as part of the Business Plan 2021+ to expand the asset base of Propco but these have not been developed yet.
What is the company's approach to the development of business continuity plans.	The Directors meeting on 6 th July 2020 discussed the impact of Covid on the hotel sector. This considered the level of outstanding rent, financial resilience of two hotel groups and payment instalment plans.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	Nothing particular as the transactions are receipt of lease/rental and repayment of borrowing (together with some modest running costs). No major GDPR risk.
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	Financial reporting has identified outstanding rent from hotel companies and risk of non-payment of City Council loan during 2020/21.
Please set out your management's processes for identifying and responding to risks of fraud.	Separation of duties in place and there is a model which governs/monitors the transactions.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	Annual Board meeting.

BIRMINGHAM CITY PROPCO LTD	
Question	Response
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	None
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	See above
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None reported
How your organisation would raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Would report internally and escalate accordingly
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Embedded in monitoring but we have leases for both hotels for the long term.
How would the company communicate any breach of GDPR requirements to the Council.	Would report to Council reporting officer.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what insurance cover does the company have in place.	Insurance is in place. Low risk of fraud with the controls in place and nature of the company and with the monitoring undertaken.

BIRMINGHAM CITY PROPCO LTD	
Question	Response
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	The accounting processes and transactions were thoroughly reviewed by FHY Hacker as part of the audit of accounts for the year 2018/19 and in hand for 2019/20. The Directors were supplied with the resulting management report for 2018/19 and when the current audit is completed then the outcome will be presented to the directors in order to sign off the 2019/20 accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	The impact of Covid and Going Concern as a result of difficulties that the hotel company tenants are having due to lockdown and ability to pay rent to Propco and then Propco to repay its loan with the City Council.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	Impairment of the finance lease debtors was shown in the accounts for 2018/19 , however an immediate revaluation of assets at the start of Covid identified a £3m reduction in the value of the hotels which has impaired the value of the loan in the City Council's 2019/20 accounts.
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None

BIRMINGHAM CITY PROPCO LTD	
Question	Response
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	<p>The 2019/20 audit is currently under way and expected end of January 2021. The 2018/19 audit identified the following issues.</p> <ol style="list-style-type: none"> 1. VAT creditor overstated by £8k 2. Trade creditor of £67k misanalysed as an accrual 3. Interest on loan for 1 month (£67k) not accrued 4. BAC's controls – independent authorisation where bank account changes 5. Bank statements require authorisation to ensure reconciliation 6. Insufficient Directors meetings during year, 7. Operating lease relating to land has been classified as a finance lease. 8. The Council's policy of a 30%/70% land and buildings split valuation has been used rather than independent separate valuation.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	Covid and non-payment of rent which will impact on Propco's ability to repay the City Council loan instalment (interest only) in 2020/21.

FINANCE BIRMINGHAM	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	From a regulatory perspective, the FCA requires annual confirmation that SMCR and directory persons are up to date on statutory compliance knowledge. From an operational perspective, the discipline of weekly senior management meetings, bi-monthly board meetings and annual appraisals (to include a review of any training requirements) keep everyone up to date. In addition, via a non-executive director, governance is monitoring via an independent view.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Bi-monthly board meetings, supported by the provision of board Papers, minutes of content and those in attendance.
Please explain the system of governance and the financial control environment within the company	Governance is monitored at a number of levels; as a regulated company FB is required to operate within FCA guidance and governance is a statutory agenda item at each board meeting
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	Financial controls exist and a full accounts audit is undertaken by a third party (currently Smith Cooper) on an annual basis. Additionally, advice is taken from an external compliance advisor.

FINANCE BIRMINGHAM	
Question	Response
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	Finance Birmingham is a self-sustainable, profit making business.
What is the company's approach to the development of business continuity plans?	Finance Birmingham is a business that essentially operates on the ability of its people, however, contingency plans exist in the event that any supporting infrastructure fails.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations?	Finance Birmingham is GDPR compliant.
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	The company's financial performance is reported at every board meeting – anomalies are reported immediately. BCC officers and councillors attend FB board meetings.
Please set out your management's processes for identifying and responding to risks of fraud.	Financial controls are documented and followed. Senior management meets weekly and discusses each aspect of the business. As mandated by the FCA, FB has a formal Compliance Officer.
How do those charged with governance monitor management's	Any instances of fraud would be immediately reported to the Board by the CEO.

FINANCE BIRMINGHAM	
Question	Response
processes for identifying and responding to risks of fraud.	Management ensures that there is the appropriate segregation of duties in place to ensure that the risk of fraud is minimised.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	None
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Through regular (weekly) management meetings
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud?	The CEO would report to the FB board and, at the same time, raise awareness with senior BCC officers
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Through financial updates and review of management accounts at bi-monthly board meetings.
How would the company communicate any breach of GDPR requirements to the Council?	The CEO would report to the FB board and, if required, raise awareness with senior BCC officers.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance	PI insurance, Directors & Officers insurance

FINANCE BIRMINGHAM	
Question	Response
cover does the company have in place.	
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	No
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Regular meetings with Smith Cooper. Annual audit.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None

FINANCE BIRMINGHAM	
Question	Response
Please set out details of any indemnities or guarantees that the company has given.	Guarantee in the sum of £400k, approved by BCC – this relates to FDC's lease on the property at (part) 11 th floor, 45 Church Street. The guarantee was required due to the short trading history of FDC. FB's staff are located in these offices. The guarantee falls away in August 2021.
Please set out details of any indemnities or guarantees that the company has received.	None
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None

BIRMINGHAM INREACH LTD	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	<p>Review of relevant skill sets, training, review of performance and associated experience to the project.</p> <ul style="list-style-type: none"> - INReach has two directors appointed by BCC who are both senior officers within BCC with extensive knowledge and experience in housing development sector and finance. - INReach has no direct employees - INReach has a service contract with BCC to provide specialist skills in housing development, finance and legal services
How does the company ensure that Directors engage fully with the company and what is the record of attendance	<p>Small core team, regular contact and strict areas of responsibility</p> <p>Quarterly Board meetings are held, and the Directors have 100% attendance record.</p>
Please explain the system of governance and the financial control environment within the company	<p>Management hierarchy consisting of a board of directors and key personnel working underneath, with individual responsibilities. Monthly review of performance and cashflow along by the directors, prepared by external accountants, from information provided by internal team.</p>
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	<p>Annual audit undertaken, regular review and liaison with external accountants for preparation of management accounts. Timely delivery is key and if any errors occur this is reviewed immediately.</p>

BIRMINGHAM INREACH LTD	
Question	Response
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	<p>Cashflow reviewed on monthly basis (in line with budget and also future forecast). Other sites for development are under consideration and investment has been secured to fund.</p> <p>Daily review of cash held at bank and monthly management accounts are prepared to provide an overview, forming basis of discussion points for management. Budgets are set at the start of the year and are reviewed as any changes occur within the company. Any shortfalls are questioned and acted on wherever possible.</p>
What is the company's approach to the development of business continuity plans.	<ul style="list-style-type: none"> - INReach risk management plan - Business continuity Insurance
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations.	<ul style="list-style-type: none"> - INReach does not hold or process any personal data, contracted parties are required to be fully compliant with GDPR requirements
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	All variances from agreed budget are detailed. Any results that aren't in line with expectations are reviewed and discussed, action being taken to rectify any issues where necessary. Journal entries are

BIRMINGHAM INREACH LTD	
Question	Response
	<p>reviewed for reasonableness and all material adjustments are queried and documented.</p> <p>The risk register is reviewed on a monthly basis at project group and reported to board a quarterly basis.</p>
Please set out your management's processes for identifying and responding to risks of fraud.	Processes are made as automated as possible, duties are segregated and external advisors are employed to review on an at least monthly basis. No cash is handled and access to bank accounts is very restricted. External agents are employed to collect rent, but internal ledgers of debtors are collected and reconciled. Transactions are of a regular nature and any changes to bank accounts are queried and verified.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	Review in line with expectations and budgets. Performance reviews of duties are also undertaken. Processes are documented and all staff trained initially and made aware of any changes.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	No area deemed more at risk of fraud than any other.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Monthly discussions take place in line with prepared management accounts. Any past errors would be acted upon and new systems put in place to prevent re-occurrence.

BIRMINGHAM INREACH LTD	
Question	Response
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Communicate any occurrences or weakness in systems that were identified via the risk register and board meeting
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Regular monthly meetings are held which communicate such matters. <ul style="list-style-type: none"> - Monthly management accounts are shared with BCC as INReach's sole shareholder - Updates and performance are discussed at BCC Partnership board attended by INReach director(s)
How would the company communicate any breach of GDPR requirements to the Council.	Promptly and in writing.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<ul style="list-style-type: none"> - Insurance Cover summary attached - Through its engagement of Accountant
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	No

BIRMINGHAM INREACH LTD	
Question	Response
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Reviewed at least annually and are agreed by management with external accountants, in line with accounting standards and any relevant laws and regulations that may apply.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	COVID-19 pandemic; no materially adverse effects on financial statements however some delays have occurred in future development as a result of unusual working patterns and environment
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None deemed to have occurred.
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	None
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None deemed necessary

BIRMINGHAM INREACH LTD	
Question	Response
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	Recognition of revenue to be changed to account for on a receivable basis (previously recognised on a cash basis) Audit report attached
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None

NATIONAL EXHIBITION CENTRE DEVELOPMENTS LTD	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	The Company's sole function is servicing the finance originally raised to fund the construction of halls 17-20 at the National Exhibition Centre. City Council officers manage the Company and City Council officers have been appointed as Company directors.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	City Council officers manage the Company and City Council officers have been appointed as Company directors. Directors meeting held during 2020/21 was attended by both directors
Please explain the system of governance and the financial control environment within the company	The Board comprises two Board members and is responsible for managing the affairs of the Company. It meets a minimum of once a year to discuss the requirements of the Company. The Board approves the Company's annual budget, the resources for which are included within City Council's plans.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	All transactions are processed through the City Council's financial systems in line with a budget previously approved by the Company Directors.
What are the company's arrangements for the development of its Business Plan, including details of cashflow management,	Not applicable. The largest transaction relates to fixed interest payable in relation to £73m loan. Other transactions are minor costs

NATIONAL EXHIBITION CENTRE DEVELOPMENTS LTD	
Question	Response
determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	to operate the Company and administer the debt. The Company has no sources of income other than the City Council
What is the company's approach to the development of business continuity plans.	Not applicable
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations.	City Council officers manage the Company in line with City Council processes.
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	All transactions are processed through the City Council's financial systems.
Please set out your management's processes for identifying and responding to risks of fraud.	All transactions are processed through the City Council's financial systems.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	All transactions are processed through the City Council's financial systems
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	Largest transaction relates to the fixed interest payment in relation to £73m loan.

NATIONAL EXHIBITION CENTRE DEVELOPMENTS LTD	
Question	Response
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	City Council officers manage the Company and City Council officers have been appointed as Company directors. Largest transaction relates to the fixed interest payment in relation to £73m loan
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	City Council officers manage the Company and City Council officers have been appointed as Company directors.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Not applicable. The largest transaction relates to fixed interest payable in relation to £73m loan. Other transactions are minor costs to operate the Company and administer the debt. The Company has no sources of income other than the City Council.
How would the company communicate any breach of GDPR requirements to the Council.	City Council officers manage the Company and City Council officers have been appointed as Company directors
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<p>The largest transaction related to fixed interest payable in relation to £73m loan. Other transactions are minor costs to operate the Company and administer the debt.</p> <p>All transactions are processed through the City Council's financial systems.</p>

NATIONAL EXHIBITION CENTRE DEVELOPMENTS LTD	
Question	Response
	The City Council maintains Directors and Officers insurance which both the Company and Directors have benefit of, to the value of £1million.
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies principally relate to the debt and are reviewed annually when preparing the Company accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None
Please set out details of any indemnities or guarantees that the company has given.	None

NATIONAL EXHIBITION CENTRE DEVELOPMENTS LTD	
Question	Response
Please set out details of any indemnities or guarantees that the company has received.	The Company has no source of funds other than the City Council. The City Council has given a guarantee to the Company in relation to the £73m loan stock, and has agreed to make payments to the Company to enable it to meet all of its other liabilities as they fall due for at least 12 months following the date of approval of the financial statements.
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	An active market quote did not exist for the guarantee given by the City Council over the Company's 2027 loan stock at 1 May 2015. Management, therefore developed an estimate of its fair value at initial recognition based on the trading price of the company's listed loan stock given the cashflows are identical
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	External auditor highlighted lack of segregation of duties in the maintenance of accounting records, and production of the financial statements. A City Council resource is being identified to address the issue.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None

BCC Questionnaire – Paradise Circus Limited Partnership

Paradise Circus Limited Partnership (“PCLP”) is a Limited Partnership registered in the UK for the purpose of the development of Paradise Circus, Birmingham City Centre. It was established as a joint venture between BCC and Britel Fund Trustees Limited (“Britel”).

Paradise Circus is a 17 acre site in the historic civic heart of Birmingham. The planned mixed-use development will provide a mix of offices, shops, leisure and cultural facilities together with civic amenities, a hotel and new public realm. The Enterprise Zone has accelerated the transformation of the city centre, which has attracted £58million of private investment, securing a range of occupiers such as HSBC and HMRC. Enterprise Zone funded works are now programmed to be completed in early 2020. All of the Phase 1 works are due to be completed in Q1 2020. The Enterprise Zone funded work for Phase 2 was approved in December 2018, and this work is ongoing.

Paradise Circus General Partner Limited (the “GP”) has considered the impact of adverse changes in the market on the financial risks of market, currency, interest rate, credit and liquidity risks. It has been determined that any adverse changes in the market to the parameters that determine the effects of these financial risks will have a minimal impact on the financial performance and position of PCLP. The GP continues to monitor the economic market for fluctuations, which drive PCLP’s decisions and policy.

As PCLP is a joint venture, the Directors were appointed by way of a joint agreement between BCC and Britel. There are 4 directors on the board of the General Partner of PCLP, comprised of two directors from BCC and two from Britel. Any decisions taken must be taken by way of joint agreement by BCC and Britel. No resolutions can be passed without consensus from both parties involved.

Contracts are entered into between PCLP and 3rd parties in relation to the development and management of the development, such as Avison Young as real estate advisors, and SRM as above. Such contracts are always approved by both BCC and Britel. Sanne keep a record of all contracts entered into, and approval dates.

PCLP has no employees or workforce of its own. Instead, in order to achieve completion of its purpose, various third parties have been engaged:

- Argent LLP – is a UK property developer and acts as Property Manager for PCLP. Argent are responsible for the development works, and oversee the contractors engaged on the project (such as Sir Robert McApine (“SRM”) and BAM Construction Limited). Argent are also responsible for the budgeting of the joint venture, with assistance from Avison Young as below.
- Avison Young UK LLP – provides additional budgeting support and project planning for PCLP
- Sanne Group (UK) Limited – are engaged to provide company secretarial, administration and accounting services to PCLP and the wider structure. Sanne and Argent are in constant communication with one another regarding the project.

As PCLP has no workforce of its own, it therefore maintains none of its own controls, policies and procedures. Instead, these are the policies and procedures that are undertaken by Sanne as service provider to PCLP. PCLPs control environment and agreed practices around internal controls, review and audit are therefore an extension of Sanne.

With respect to Business Continuity Protocols/Practice, Sanne has its own BCP, which includes all employees being able to work remotely. Both BCC and Britel are able to contact some members of staff outside of business hours if required.

Quarterly board meetings are held, which must be attended by at least 1 BCC and 1 Britel director. In practice all directors attend the quarterly board meetings, either via phone if needed. All directors are heavily involved in the decision making for PCLP and the structure. During 2019 all of the directors were in attendance at these meetings. Sanne, Argent and Avison Young also attend these meetings to advise on any matters as necessary. Sanne oversee the governance of PCLP and the structure.

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	See attached document
How does the company ensure that Directors engage fully with the company and what is the record of attendance	See attached document
Please explain the system of governance and the financial control environment within the company	See attached document
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	See attached document
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	See attached document
What is the company's approach to the development of business continuity plans.	See attached document

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations.	<p>SANNE has implemented its own GDPR & Data Protection project to ensure that we have an end-to-end privacy compliance framework in place; this is fundamental in demonstrating how we are aligned with the requirements of the GDPR. Some of the key project streams include:</p> <ul style="list-style-type: none"> • The implementation of appropriate policies and procedures; • The roll out of a global training and awareness programme; • A priority driven data mapping and inventory exercise for each process within the business; and <p>Third party vendor review programme.</p>
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	<p>Sanne PLC Board has agreed a risk appetite statement for the Group. Those risk appetite statements are adopted by all the regulated entities within the Sanne Group:</p> <ul style="list-style-type: none"> • SANNE Group will take all reasonable steps to apply controls to mitigate the risk of fraud against its clients or any SANNE Legal Entity. • SANNE will apply a zero tolerance to any activity by any employee or party acting on behalf of a SANNE legal entity that constitutes, or could lead to, any fraudulent activity. • As permitted by law, SANNE will cooperate openly and transparently with SANNE's regulators and other lawful authorities in governing, preventing, detecting, responding or

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<p>remediating any fraudulent activity.</p> <ul style="list-style-type: none"> Where any fraud is considered to be of a material nature, as determined by the CS&GS Risk Committee, then the matter will reported to the relevant Board of Directors who will determine it should be reported as a criminal activity to the local law enforcement authority. SANNE will apply a risk-based approach to monitoring transactional activity and asset transfers that will include setting thresholds and client behavioural tolerances that will automatically prompt a referral for that activity or transaction to be subject of a further review. As fraud is a predicate offence and when any employee has reasonable grounds to suspect that a fraud has been committed or attempted they will raise a SAR/STR and it will be processed in accordance with agreed reporting procedures.
Please set out your management's processes for identifying and responding to risks of fraud.	Sanne has established an anti-Fraud policy, and training. Fraud is included in compliance monitoring programme, as well as tested by first, and third line of defence.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	<p>Sanne has implemented the 3 lines of defence model.</p> <p>The 1st line of defence (FLOD) owns and manages risks. It includes senior and middle managers, and staff. FLOD is responsible for identifying and managing risk as part of their accountability for achieving objectives. Sanne has also established a QA function, which sits within first line of defence and is responsible for testing controls.</p>

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<p>Compliance and Risk forms the 2nd line of defence (SLOD). This provides the policies, frameworks, and support to enable risk and compliance to be managed in the first line, conducts monitoring to test adequacy and adherence to controls. Reports are provided to local boards and directors.</p> <p>Internal Audit function forms the 3rd line of defence (TLOD) Its main responsibility is to ensure that the first two lines are operating effectively and advise how they could be improved. IA reports to the board. It also provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to Sanne's senior leaders.</p>
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	<p>External fraud covers:</p> <ul style="list-style-type: none"> • Client is fraudster - where the client commits, or attempts to commit fraud through their accounts or products against another party. • Third Party Fraud - where a third party (i.e. anyone who is not a client of SANNE Group) uses our client's details to commit, or attempt to commit fraud. • Where a third party uses fraud against a SANNE entity. <p>Internal fraud covers:</p> <ul style="list-style-type: none"> • Employee Fraud - committed by, or assisted by, staff, suppliers (and employees of suppliers) or business introducers. Activity includes: <ul style="list-style-type: none"> ○ The intention to exploit an individual's or

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<p>organisation's trust or legitimate access to their assets for unauthorised and or/illegitimate purposes.</p> <ul style="list-style-type: none"> ○ Aiding and abetting others through recklessness or wilful blindness, where colleagues are not actively involved in a deception, but recklessly or knowingly allow it to happen. ○ Aiding or abetting others to commit tax evasion.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Please see the above sections.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	There are no instance of, or allegations of fraud, errors or other irregularities for the 2020 calendar year.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Notification to BCC representatives that sit on the board of Paradise Circus General Partner Limited and General Partner of Paradise Circus Limited Partnership.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	This would be communicated by Argent LLP and Avison Young UK LLP, who are engaged to provide services to the limited partnership. SANNE provide company secretarial and accounting services only.
How would the company communicate any breach of GDPR requirements to the Council.	Notification to BCC representatives that sit on the board of Paradise Circus General Partner Limited and General Partner of Paradise Circus Limited Partnership.

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	SANNE has a control framework in place to mitigate risks in line with market practice. This residual risk is then insured. SANNE have appropriate levels of insurance in place.
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	No claims have been made against the directors or the company. We are not aware of any incidents that may lead to a claim. There have also been no claims against the company secretary.
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	The financial statements for PCLP are prepared under FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The accountants are kept up to date with any changes made to accounting policies which may affect the preparation of the financial statements. These are considered during financial reporting and also advised by the auditors of PCLP.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's	COVID-19 means a more in-depth going concern assessments are undertaken by the Directors of the GP. Please see the below

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
consolidated financial statements.	<p>disclosure that has been included within the accounts:</p> <p>COVID-19</p> <p><i>In early 2020, the existence of a new coronavirus (COVID-19) was confirmed and since this time COVID-19 has spread to the UK and across the world. COVID-19 has caused disruption to businesses and economic activity, reflected by the recent severe fluctuations in global stock markets.</i></p> <p><i>The directors of the General Partner have considered the effect of the COVID-19 outbreak on the Partnership's activities. The outbreak has caused a significant disruption to the Partnership's business at the date of the approval of these financial statements; on-site works have been materially reduced so as to comply with government guidelines on social distancing and construction and site preparation timelines have been pushed back. At this time given the inherent uncertainties, it is not possible to determine the extent and the quantum of the impact.</i></p>
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	N/A
Please set out details of any indemnities or guarantees that the company has given.	N/A

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
Please set out details of any indemnities or guarantees that the company has received.	N/A
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	N/A
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None have been identified yet – the audit is still ongoing.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	<p>COVID-19 – on construction and development times. However, this has been built into the forecasting for PCLP. Please see the going concern disclosure that has been included within the accounts:</p> <p>Going concern</p> <p><i>The Partnership's recent and current activities are set out within the Business Review in the Strategic Report on page 5. The directors of the General Partner have considered the effect of the COVID-19 outbreak. The directors recognise the significant disruption to the Partnership's business activities caused by the outbreak, however do not consider that this has cast doubt on the Partnership's ability to continue as a going concern. The Partnership has considerable financial resources in the form of funding committed from Birmingham City Council and Britel Fund Trustees Limited for the duration of the development phase of the Partnership.</i></p>

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<i>As a consequence, the directors believe that the Partnership is well placed to manage its business risks successfully, and have a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt a going concern basis in preparing the Partnership's financial statements.</i>

PETPS BIRMINGHAM LIMITED	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors. Specialist advice is obtained when required.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors. Directors meeting held during 2020/21 was attended by both directors
Please explain the system of governance and the financial control environment within the company	Following the completion of the sale of the NEC Group in 2015, the Company assumed the ongoing funding obligation of the NEC Limited Pension Fund and Scheme. At the same time Birmingham City Council gave guarantees to meet the funding obligations that may arise in respect of the liabilities. The assets of the Fund and Scheme are held separately from the Company. The Company itself has no financial transactions.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	The Company itself has no financial transactions.

PETPS BIRMINGHAM LIMITED	
Question	Response
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	The Company itself has no financial transactions.
What is the company's approach to the development of business continuity plans.	The Company itself has no financial transactions.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations	Birmingham City Council officers manage the Company in line with Birmingham City Council processes
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	The Company itself has no financial transactions.
Please set out your management's processes for identifying and responding to risks of fraud.	The Company itself has no financial transactions.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	The Company itself has no financial transactions.

PETPS BIRMINGHAM LIMITED	
Question	Response
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	The Company itself has no financial transactions.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	The Company itself has no financial transactions.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	Not applicable. The Company itself has no financial transactions.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Not applicable. The Company itself has no financial transactions.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Not applicable. The Company itself has no financial transactions.
How would the company communicate any breach of GDPR requirements to the Council.	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	Not applicable. The Company itself has no financial transactions.

PETPS BIRMINGHAM LIMITED	
Question	Response
	Directors and Officers insurance is available to the value of £1million. Pension Trustee liability cover is also available to the value of £10 million.
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies are reviewed annually when preparing the Company accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None

PETPS BIRMINGHAM LIMITED	
Question	Response
Please set out details of any indemnities or guarantees that the company has given.	The Company is sole guarantor of the NEC Pension Trustee Company Limited, a wholly owned subsidiary.
Please set out details of any indemnities or guarantees that the company has received.	Birmingham City Council has given guarantees to meet the current and future contingent funding obligations that may arise in respect of the NEC Limited Pension fund and the NEC Executive Pension Scheme.
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None

Group Accounts Preparation

Appendix 1

PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP	
Question	Response
Company Environment	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	Birmingham City Council ("City Council") officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies. All meetings held during 2020/21 were attended by both directors.
Please explain the system of governance and the financial control environment within the company	During 2017/18, the City Council implemented an asset backed funding structure to allow the City Council to finance payments to the NEC Limited Pension Fund. As part of this, the City Council set up wholly owned companies PETPS (Birmingham) Capital Limited and PETPS (Birmingham) General Partner Limited which established PETPS (Birmingham) Pension Funding SLP. The Partnership was capitalised with £17.2m cash which has been loaned back to the City Council. All cash transactions are processed through the City Council's financial systems.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	All cash transactions are processed through the City Council's financial systems.

PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP	
Question	Response
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	Not applicable. The largest transaction relates to payments by the City Council to the Partnership under the £17.2m loan and the Partnership makes payments to the Trustee of the Fund in accordance with an agreed distribution schedule.
What is the company's approach to the development of business continuity plans.	Not applicable
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements and other relevant laws and regulations	City Council officers manage the Companies and Partnership in line with City Council processes.
The Identification, Mitigation and Reporting of Risk	
Please set out your management's views on your risk assessment process as it related to financial reporting.	All cash transactions are processed through the City Council's financial systems.
Please set out your management's processes for identifying and responding to risks of fraud.	All cash transactions are processed through the City Council's financial systems.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	All cash transactions are processed through the City Council's financial systems.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	Not applicable. The largest transaction relates to payments by the City Council to the Partnership under the £17.2m loan and the

PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP	
Question	Response
	Partnership makes payments to the Trustee of the Fund in accordance with an agreed distribution schedule
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Not applicable. The largest transaction relates to payments by the City Council to the Partnership under the £17.2m loan and the Partnership makes payments to the Trustee of the Fund in accordance with an agreed distribution schedule
How would the company communicate any breach of GDPR requirements to the Council.	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<p>All cash transactions are processed through the City Council's financial systems.</p> <p>Directors and Officers insurance is maintained to the value of £1million in respect of PETPS(Birmingham) General Partner Limited, and £1million in respect of PETPS(Birmingham) Capital Limited.</p>

Group Accounts Preparation

Appendix 1

PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP	
Question	Response
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None
Financial Statements	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies are reviewed annually when preparing the Company accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	None

Group Accounts Preparation

Appendix 1

PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP	
Question	Response
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	External auditor highlighted lack of segregation of duties in the maintenance of accounting records. A City Council resource is being identified to address the issue.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Interim Chief Finance Officer
Date of Decision:	30 March 2021
Subject:	Adoption of Accounting Policies for 2020/21
Wards affected: All	
1	Purpose
1.1	To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2020/21.
1.2	To notify Members of the changes in accounting standards that will impact on the Council's Accounts in future years.
2	Decisions recommended:
	That Audit Committee
2.1	Consider and adopt the accounting policies for the determination of the Council's accounts for 2020/21.
2.2	Note the implications for future years' accounts arising from the changes in Accounting Standards.

Contact Officer: Rebecca Hellard
Telephone No: 0121 303 2950
E-mail address: rebecca.hellard@birmingham.gov.uk

Contact Officer: Mohammed Sajid
Telephone No: 0121 303 4667
E-mail address: mohammed.sajid@birmingham.gov.uk

3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:

Yes

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:

The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

3.4 Will decisions be carried out within existing finances and resources?

Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):

The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

4 Relevant background/chronology of key events:

4.1 The Council is required to prepare its accounts with regard to: a) Relevant accounting standards; and b) The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 published by the Chartered Institute of Public Finance Accountancy (the Code) which is updated annually.

4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.

4.3 In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance 2020/21 has been used as a base position except where amendments to reflect local circumstances or to enhance the policies is more appropriate. The policies where there are some changes to the Guidance Model are as follows:

- Note xvii – Accounting for Schools – additional clarification has been added to set out the Council's approach to accounting for land and building assets associated with Voluntary Aided, Voluntary Controlled and Foundation Schools.
- Note xix – Cash and Cash Equivalents – the Council policy is to recognise cash and cash equivalents as those assets where the asset can be used or recovered immediately for use. All other deposits are accounted for as investments. This varies from the CIPFA guidance which describes cash equivalents as those investments that are highly liquid investments that mature in a period of no more than three months.
- Note xx - Provisions, Contingent Liabilities and Contingent Assets – sections have been added to cover the accounting arrangements for equal pay and onerous contracts given the significance of these disclosures to the Council. The paragraph for equal pay provisions has also been updated to reflect the change in legislation noted below.
- Note xxii. Council Tax and Business Rates – additional clarification has been added.
- Note xxvii – Council Acting as Agent - policy has been added for clarification
- xxx – Dedicated Schools Grant deficit balances – new policy has been added for clarification, see below for explanation regarding new legislation.
- Acquired Operations - policy has been removed as there are no acquired operations in 2020/21.
- Discontinued Operations - policy has been removed as there are no discontinued operations in 2020/21.

4.4 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report. When the financial statements are produced, only those accounting policies that have an impact on the financial statements for the years under consideration will be included in the final document.

4.5 The only other alteration that may be made to them will be any possible streamlining, or simplification deemed possible upon review through the accounts production process. No changes will be made that materially affect the Council's accounting policy without noting to the Audit committee for approval.

5 New legislation, requiring an amendment to policies or procedures

5.1 There are two areas of legislation that have changed, which impact on our policies:

a) **DSG deficit balances** - For which there are two changes in legislation:

- The school and early years finance (England) regulations 2020 came into force on 21 February 2020 and is applicable to local authority accounting periods beginning 1 April 2020. This requires deficits to be carried forward to be funded by future DSG income, unless permission is provided by the secretary of state to fund them from general income;
- The local authorities regulations 2020 came into force on 29 November 2020, which requires that where a local authority has a deficit in respect of its schools budget for each of FY20, FY21 or FY22, it must not charge this to a revenue account, and instead must charge it to a separate account used solely for recognising deficits in respect of schools budgets.

Note that the financial statements will continue to be produced under IFRS with DSG being accounted for in the normal way, and we have created the new reserves in order to be compliant with this legislation. Note xxxi explains this in our accounting policies.

b) **Equal pay provision** - In England and Wales, the ability to defer the reserves impact of new provisions for Equal pay claims ceased to be allowable from 1 April 2020. These regulations previously gave discretion to a local authority not to charge to revenue a provision for back pay arising from unequal pay claims until the cash settlement actually took place. Any new claims, from 1 April 2020 can no longer be deferred to payment, and must be recognised in line with section 8.2 of the code. Note xxi in our accounting policies explains this.

6 New Accounting Standards

6.1 There is one accounting standard, IFRS 16, Leases, which will impact on the 2021/22 financial statements and will be referenced in the 2020/21 financial statements as "An Accounting Standard Issued but not yet Adopted".

6.2 The implementation of this standard was deferred for a year as whilst it has no impact on balances for local authorities it was considered to do so for other organisations that form part of the Whole of Government Accounts (WGA). As a result of the impact on the bottom line for certain organisations, it was decided that implementation would be deferred for part of the public sector for another year. This would have meant that local authorities would have had to produce their accounts under the new accounting standard and then provide information for the WGA on the old accounting basis. Therefore, it was agreed

that implementation would be deferred for local authorities until the 2021/22 financial year.

- 6.3 This standard does not impact on an entity that is a lessor but does have an impact where it is a lessee. Once the standard is implemented lessees will have to account for leases greater than 12 months for assets, other than low value assets, by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet.

Effectively operating leases would be treated in the same way as finance leases are at present. The change in approach is likely to mean that all new substantial leases of a lessee would be treated as capital expenditure and fall within the Prudential Framework.

- 6.4 There are minor amendments to IAS19 (employee benefits), which we will be adopting but that do not materially affect the financial statements, or our accounting policies.

7 Accounting Implications

- 7.1 The potential implications for future years' accounts as a result of the implementation of the new accounting standards will be reported to Members as the standards are published and additional information becomes available.

8 Recommendations

- 8.1 It is recommended that Members:

a) adopt the accounting policies for 2020/21 as detailed in Appendix 1.

b) note the implications for future years of the introduction of new accounting standards

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Rebecca Hellard, Interim Chief Finance Officer

Appendices

Appendix 1 – Accounting Policies 2020/21

Appendix 1**Accounting Policies 2020/21 – First Draft****Note 1****Accounting Policies****i. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Accounts and Audit Regulations 2015 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categorised non-current assets and financial instruments. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (that is, brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and if applicable is adjusted for subsequent depreciation or impairment.

ii. Accruals of Income and Expenditure

Service activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the sale of goods or provision of services satisfied over time is recognised if the Council can reasonably measure its progress towards complete satisfaction of the performance obligation;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, for example, fuel and transport parts;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- When income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus and investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised with the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, that is, in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or events and conditions, on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

Short term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits, for example cars for current employees, and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of annual leave entitlements (or any other form of leave, for example time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus/Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that leave benefits are charged to revenue in the financial year in which the leave of absence occurs.

Other Long Term Benefits

Other long term employee benefits are benefits, other than post-employment and termination benefits, that are not expected to be settled in full before 12 months after the end of the annual reporting period for which employees have rendered the related service. Within local authorities the value of these benefits are not expected to be significant. Such long term benefits may include:

- Long term paid absence or sabbatical leave;
- Long term disability benefits;
- Bonuses;
- Deferred remuneration.

Long term benefits would be accounted for on a similar basis to post-employment benefits.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate Directorate at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of one of three separate pension schemes:

- The Local Government Pension Scheme, administered by the West Midlands Pension Fund offices at Wolverhampton City Council;
- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education;
- The NHS Pensions Scheme, administered by NHS Pensions.

Each scheme provides defined benefits to members (retirement lump sums and pensions), earned during employment with the Council.

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of X.XX% based on the indicative rate of return on high quality corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price;
 - unquoted securities – professional estimate;
 - unitised securities – current bid price;
 - property – market value.
- The change in the net pensions liability is analysed into the following elements:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;
- ⊖ past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by

applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the West Midlands Local Government Pension Fund:

- cash paid as employer's contributions to the pension fund; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account arising from the requirement to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers and public health employees, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vi. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but which does not result in the creation of a non-current asset, has been charged as expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

vii. Charges to Revenue for Non-Current Assets

Directorates and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note XX, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

viii. Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Council when there is assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution are satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied or expected to be satisfied, the grant or contribution is credited to the relevant Directorate (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account as they are applied to fund capital expenditure.

ix. Overheads and Support Services

The costs of overheads and support services are charged to Directorates in accordance with the Council's arrangements for accountability and performance.

x. Property, Plant and Equipment sent to Liz to review

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (for example, repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council capitalises borrowing costs incurred whilst material assets are under construction. Material assets are considered to be those where total planned (multi-year) borrowing for a single asset (including land and building components) exceeds £20m, and where there is a 'substantial period of time' from the first capital expenditure financed from borrowing until the asset is ready to be brought into use. A substantial period of time is considered to mean in excess of two years. Both of these tests will be determined using estimated figures at the time of preparing the accounts in the first year of capitalisation. Should either test fail in subsequent financial years, the prior year's treatment will not be adjusted retrospectively.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (that is, it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are subsequently carried in the Balance Sheet using the following measurement bases:

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);

- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- surplus assets – fair value; assessed in their highest and best use
- all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Upon revaluation, where the current value of a property has been assessed by the valuer as being below £50k, the Council applies a de minimis approach and determines the asset as having a nil current value on the basis of materiality.

Impairment

Assets are assessed at each year-end for any indication that an asset may be impaired. Where indications exist and any possible difference is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where revaluation and impairment losses are identified, and where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction in value is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains, the loss is charged against the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Directorate in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for the depreciation that would have been charged if the loss had not been recognised.

Useful Life

The Council estimates that assets, at new, have remaining useful lives within the parameters as detailed below:

- Council Dwellings – separated into the key components
 - Land – indefinite life;
 - Kitchens – 20 years;
 - Bathrooms – 40 years;
 - Doors/Windows/Rainwater, Soffits and Facias – 35 years;
 - Central Heating/Boilers – 15 to 30 years;
 - Roofs – 25 to 60 years;
 - Remaining components (Host) – 30 to 60 years;
- Buildings – up to 50 years;
- Vehicles, Plant, Furniture and Equipment – up to 50 years;
- Infrastructure – up to 40 years.

The useful life of each relevant asset is reviewed as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

Where a school is proposing to transfer to Academy School Trust status after the year end, the Council maintains the useful life of the school's assets on the basis of the last valuation undertaken.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, including components, by the systematic straight line allocation of their depreciable amounts over their useful lives. Assets without a determinable finite useful life, and assets that are not yet available for use, are not depreciated. Depreciation is charged in the year of disposal but not charged in the year of purchase.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Where an asset is material (over £5m) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. Also, additions are considered for components, whereby as components are added, any component being replaced is derecognised. Where the historical cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and carrying value less the cost of sale. Where there is a subsequent decrease to carrying value less the cost of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2020/21, X% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

xi. Heritage Assets

Heritage assets are assets that have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the historical environment, public works of art and civic regalia and plate.

Where assets of a heritage nature are used in the ongoing delivery of the Council's services, such as historically interesting buildings and parks and open space, they have not been categorised as heritage assets but remain as other land and buildings or as community assets within Property, Plant and Equipment.

For the Museum, Library and Civic Plate Collections, insurance valuations are used due to the unique nature, diversity and quantity of the assets, and lack of historical cost information. For other types of Heritage Assets, historical cost information is used where available when compiling the balance sheet. In some cases, neither reliable valuation information nor historical cost information is available, in which case the asset has been excluded from the balance sheet.

The Council considers that heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council's relevant policies (see section xi. Property, Plant and Equipment in this note).

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charges to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

xiii. Investment Properties

Investment properties are those that are held by the Council solely to earn rentals and/or for capital appreciation. An asset does not meet the definition of being an investment property if it is used in any way to facilitate the delivery of services, for the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently carried at fair value, measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation, or on disposal, are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Whilst discharging its role the Council works to ensure that the stewardship of all property assets is such that they are managed in a way that is economic, efficient and effective. The Council has a site that meets the definition of 'Investment Properties'.

The Council has a number of lease arrangements with subsidiary companies that are not treated as investment properties in line with IAS 40, Investment Property.

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

xiv. Service Concession Arrangements

Service concession arrangements (formerly classed as PFI and similar contracts) are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the arrangement, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contractor each year are analysed into five elements:

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;
- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

xv. Leases

Leases are classified as either finance or operating leases at the inception of the lease. Classification as a finance lease occurs where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the asset from lessor to lessee and where the lease term is for the major part of the economic life of the asset in question, whether or not title is eventually transferred. Those leases not classified as finance leases are deemed to be operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant or equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premia paid on entry into a lease are applied to writing

down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Property, Plant and Equipment recognised under finance leases are accounted for using the policies generally applied to such assets (see section xi above).

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the Directorate benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to impact the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease for an asset, it is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint operations and proper accounting practices require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xvii. Accounting for Schools

Local authority maintained schools, in line with relevant accounting standards and the Code, are considered to be separate entities with the balance of control lying with the Council. As such the Council should consolidate the activities of schools into its group accounts. However, the Code requires that the income, expenditure, assets and liabilities of maintained schools be accounted for in local authority entity accounts rather than requiring the preparation of group accounts.

The Council has the following types of maintained schools under its control:

- Community schools;
- Voluntary Controlled schools;
- Voluntary Aided schools;
- Foundation schools.

Given the nature of the control of the entities and the control of the service potential from the non-current assets of the maintained schools, the Council has recognised buildings and other non-current assets on its balance sheet. The Council has recognised all land for Community Schools on its balance sheet and recognised that land for Voluntary Aided, Voluntary Controlled and Foundation Schools where it can be demonstrated that the Council has control over the land through restrictive covenants within site deeds or where there is reasonable evidence that restrictive covenants are in place.

Academies and Free Schools are not considered to be controlled by the Council and are not consolidated into the entity or group accounts.

xviii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost. Non-borrowing creditors are carried at contract amount. Annual charges to the Financing and Investment Income and Expenditure line in

the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments to the instrument over the life of the instrument to the amount at which it was originally recognised.

For most of the Council's borrowings, this means the amount presented in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005 and the NEC Development 2027 bonds, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was repayable or discount received when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not currently have any financial assets designated at FVOCI.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (that is, where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount

presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Where it is possible to determine a fair value, measurement of the financial assets is based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Instruments Entered Into Before 1 April 2006

The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

xix. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty on notice of not more than 24 hours. Any deposits with financial institutions that may be repaid after the immediate day are considered to be investments, not cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand, where there are pooling arrangements across the accounts with the same institution, and form an integral part of the Council's cash management.

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate Directorate in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Provisions are not discounted to their value at current prices unless material.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example, from an insurance claim), this is only recognised as income for the relevant Directorate if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Onerous Contracts -BCC policy not in code

An onerous contract is a contract for the exchange of assets or service in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Onerous Contracts are accounted for under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. A provision will be recognised for the unavoidable costs.

Provision for Back Pay Arising from Equal Pay Claims - slightly different from code and new section added for change in legislation.

The Council has made a provision for the costs of back pay arising from claims made under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003. The Council bases the estimate of its provision on the expected costs of settlement for claims received up to the point of production of its financial statements.

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established, for all claims made up to 1 April 2020. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund and Housing Revenue Account balances in the year that the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund and Housing Revenue Account balances through the Movement in Reserves Statement in future financial years as payments are made.

The ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. Liabilities, and changes in them, recognised before 1 April 2020 continue to be deferred until settlement. New equal pay liabilities recognised after 1 April 2020 will be accounted for in line with section 8 of the CIPFA code, and IAS37.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation that will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 34 to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in Note XX to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxi. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate Directorate in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxii. Council Tax and Business Rates

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. The Collection Fund's key features relevant to the accounting for Council Tax and Business Rates in the core financial statements are:

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;
- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Comprehensive Income and Expenditure Statement

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. In addition, that part of Business Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to Business Rates in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and Business Rates are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayment and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor/creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will, therefore,

be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and Business Rates collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition that part of Business Rates retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's surplus or deficit on the Collection Fund, is included as a net increase/decrease in cash and cash equivalents.

xxiii. Business Improvement Districts

In accordance with the provisions of the Business Improvement District Regulations (England) 2004 ballots of local businesses within specific areas of the City have resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the Business Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with Code guidance the Council has determined that it acts as agent to the Business Improvement District authorities and therefore neither the proceeds of the levy nor the payment to the Business Improvement District Company are shown in the Council's accounts.

xxiv. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the City.

CIL is received without outstanding conditions; it is, therefore, recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with section ix. Government Grants and Contributions of this note. CIL charges will be largely used to fund capital expenditure although an element may be used to support infrastructure maintenance and a small proportion of the charges may be used to fund the costs of administration associated with the CIL.

xxv. Events After the Reporting Period

Events after the Balance Sheet date are those material events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of Audit Committee adoption of the accounts are not reflected in the Statement of Accounts.

xxvi. Joint Operations and Jointly Controlled Assets

Joint operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets it controls and the liabilities it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and the expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xxvii. Council Acting as Agent

The Council does not include transactions that relate to its role in acting as an agent on behalf of other bodies. In such cases the Council is acting as an intermediary and does not have exposure to significant risks and rewards from the activities being undertaken.

xxviii. Value Added Tax

Value Added Tax payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Value Added Tax receivable is excluded from income.

xxix. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effected. Where amounts in foreign currency are outstanding at the year-

end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xxx. Dedicated School Grants Deficit Balances

Where the Council has a deficit in respect of its schools budget for a financial year beginning on 1st April 2020, the authority does not charge to a revenue account an amount in respect of that deficit. Instead, it charges the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget

These financial statements continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). An accounting adjustment is made via the MiRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

Birmingham City Council Audit Plan

Year ending 31 March 2021

March 2021



Contents



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Section

Key matters	3
Introduction and headlines	5
Group audit scope and risk assessment	7
Significant risks identified	8
Accounting estimates and related disclosures	11
Other matters	14
Materiality	15
Value for Money Arrangements	16
Risks of significant VFM weaknesses	17
Audit logistics and team	20
Audit fees	21
Independence and non-audit services	23
Appendix 1: Revised Auditor Standards and application guidance	25

Page

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.

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Key matters

Factors

Impact of Covid-19 pandemic

The outbreak of the coronavirus (Covid-19) pandemic has impacted on the normal operations of the Council. The impact on Birmingham's communities is unprecedented in scale and complexity. Many of the negative impacts of the virus have exacerbated challenges of poverty and inequality experienced in too many communities prior to the pandemic, resulting in a widening of inequalities in Birmingham and across the rest of the country.

Financially, the Covid-19 pandemic has created cost pressures and short-term loss of fees and charges revenue. These have been offset, as the Council has received £128.5 million of Covid-19 government grant funding, £6.4 million school meals funding, and expects an estimated £21.9 million from the income loss funding scheme.

The Council is also now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient services.

BREXIT

The UK left the European Union on 1 January 2021, and the potential impact that this might have on the Council's activities is still largely unknown. The Council has identified concerns in relation to the capital programme, and the as yet unknown impact of Brexit [together with the continuing impact of Covid-19] on the construction industry, and the supply and import of materials and labour. There are also potentially significant impacts for local citizens and local businesses. The Council conducted a risk and impact assessment in 2019 and developed a Brexit Readiness Programme to address the key challenges and the necessary preparations in a structured way with a Council-wide approach.

Financial position

2020/21 has been a challenging year for all public sector bodies, with unprecedented levels of change, both in terms of demand, and at an operational level. The financial pressure placed on the Council as a result of the Covid-19 pandemic is estimated to be £117.4 million, made up of increased expenditure (63%) and a loss of income (37%). This pressure is offset by grants and reimbursements expected to total £156.8 million, as stated above.

These cost pressures are aided by a forecast underspend for the year of £13.7 million, excluding the impact of Covid-19. This underspend is driven by £12.7 million underspend on adult social care, due in part to the benefits of temporary arrangements put in place due to Covid-19, and in part due to early implementation of savings plans.

The future of local government funding remains uncertain as funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022. The Council is proposing a balanced budget for 2021/22 but this includes the net use of £155.9 million of reserves, largely use of earmarked section 31 grant monies to offset the Business Rates Collection Fund deficit. The medium term financial plan includes a total use of £208.3 million of reserves over the course of the four years commencing 1 April 2021.

The capital programme is currently forecast to outturn spend of £519.4 million against a budget of £868.7 million in 2020/21. Of the slippage, £310.5 million is Covid-19 related.

Our response

- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.
- We will ensure that we understand any changes to the Council's control environment as a result of remote working
- We will consider the potential impact of Covid-19 on the individual transactions and balances within the financial statements throughout our audit work
- We will consider the impact of Brexit on the Council's arrangements, and how this is factored in to the Council's forward planning, as part of our Value for Money work
- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

Key matters cont.

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Our Value for Money conclusion for the 2019/20 year (under the old Code of Audit Practice) was qualified in relation to two areas: the financial impact of the Commonwealth Games; and the contractual arrangements in relation to the Highways PFI scheme. In both instances, weaknesses were identified in the Council's arrangements for informed decision making.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's investments which impacted the net liability position in the Council's balance sheet. We will monitor the position for the 31 March 2021 valuations.

Our response

- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid-19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 9.
- We will liaise with the Council's valuer to clarify any potential material uncertainties in 2020/21.
- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice.
- We will continue to provide you with sector updates via our Audit Committee updates.

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
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

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 £34,310k (PY £34,400k) for the group and £34,300k (PY £34,350k) for the Council, which equates to 1.2% of your prior year gross expenditure. 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 £1,700k (PY £1,700k).

Introduction and headlines cont.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

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

Audit logistics

Our planning visit has taken place in February and March 2021 and our final visit will take place once the Council's draft accounts are prepared. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit has not yet been confirmed (PY: £333,659, subject to PSAA approval). Due to the changes in approach, we anticipate that a fee variation will be needed for the 2020/21 financial year. 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, however the following balances are expected to be material to the group: <ul style="list-style-type: none"> • Expenditure • Net pension liability 	Specific scope procedures will be completed on these balances 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, however the company's loan stock is expected to be material to the group.	Specific procedures will be completed on these balances by Grant Thornton UK LLP.
Other entities as set out on page 5	No		None	Analytical review performed by Grant Thornton UK LLP.

From the completion of our planning procedures, we are not aware of any changes within the group during the 2020/21 financial year.

Audit scope

- Audit of the financial information of the component using component materiality
- Specified audit procedures
- 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	Risk relates to	Reason for risk identification
Presumed risk of fraud in revenue recognition ISA (UK) 240	n/a	<p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement 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:</p> <ul style="list-style-type: none"> • 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. <p>Therefore we do not consider this to be a significant risk for the Council.</p>
Risk of fraud related to expenditure recognition PAF Practice Note 10	n/a	<p>In line with the Public Audit Forum Practice Note 10, 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 misstatement 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.</p> <p>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.</p>

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls ISA (UK) 240	Council and Group	<p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	Council and Group	<p>The Council revalues its land and buildings on a rolling, five-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4,943 million in the Council's balance sheet at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions.</p> <p>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.</p> <p>We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 to assess the completeness and consistency with our understanding; • engage 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; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • 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.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council and Group	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2,591 million in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 experts (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; and • obtain assurances from the auditor of the West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the WMPF and the fund assets valuation in the WMPF financial statements.
Valuation and completeness of the equal pay liability	Council and Group	<p>Under ISA 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.</p> <p>We identified the valuation and completeness of the equal pay provision as a risk requiring special audit consideration, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 was based; • assess the accuracy and completeness of the information used as the basis 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; and • consider events or conditions that could have changed the basis of estimation, and the potential impact of any transactions or events after 31 March.

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.

We identified three recommendations in our 2019/20 audit in relation to the Council's estimation process for valuation of land and buildings and valuation of the net pension liability.

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 cont.

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

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 and council dwellings
- Depreciation
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Valuation of the equal pay provision
- Fair value estimates

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;
- 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 enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we have made additional enquires 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](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 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 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.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VFM work) and ensure that our work on going concern is proportionate for public sector bodies.

We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report. We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

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 £34,310k (PY £34,400k) for the group and £34,300k (PY £34,350k) for the Council, which equates to 1.2% of your prior year gross expenditure.

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.

Matters we will report to the Audit Committee

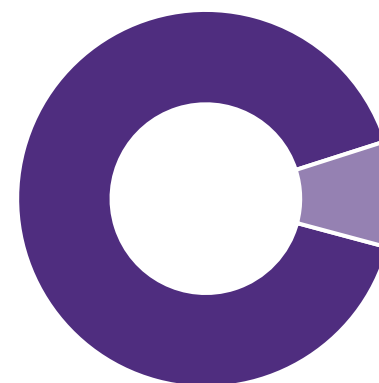
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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 £1,700k (PY £1,700k).

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.

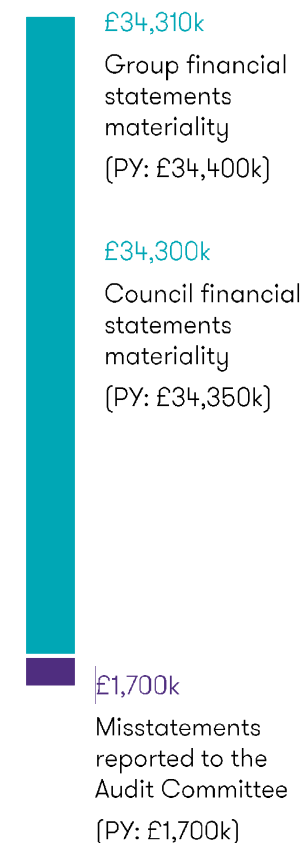
Prior year gross operating costs

£2,860m Group
£2,864m Council



- Prior year gross operating costs
- Materiality

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM).

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed below, along with the further procedures we will perform.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial impact of the Commonwealth Games

In previous years we have identified that the cost of hosting the Commonwealth Games (the Games) could impact on the Council's future financial sustainability.

Over the course of the 2019/20 financial year, substantial cost pressures arose that exceeded the level of contingency included within the Full Business Case for the Games, resulting in the requirement for a revised case to be reported to Cabinet only nine months later, in March 2020.

Our VFM conclusion was qualified in this regard in 2019/20. Since then, Covid-19 has had a significant impact on the planning and preparation for the Games.

We will review the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games, the levels of planned spend, and the associated funding arrangements.

We will establish how the Council is identifying, managing and monitoring this risk.



Contractual arrangements relating to the highways PFI scheme

The Council and Birmingham Highways Ltd are currently in the process of procuring a long-term subcontractor for the Council's highways PFI scheme. During this process there is the potential for significant change to the agreement between the Council and BHL, and for the level of service delivered by the future contract to be reduced.

Our VFM conclusion was qualified in this regard in 2019/20.

Utilising Grant Thornton staff with specific PFI expertise, we will gain an understanding of the latest position relating to this contract, and the progress made in the retendering process.

We will establish how the Council is identifying, managing and monitoring this risk.

Risks of significant VFM weaknesses cont.



Waste service continuity and industrial relations

In previous years we have identified a VFM risk regarding the governance arrangements in relation to the waste dispute. This has also been the subject of previous Statutory Recommendations issued by Grant Thornton in July 2018 and March 2019.

The Council commissioned an independent review of the Waste Service in 2019, but this has not yet concluded. As part of our VFM work in 2019/20, we recommended that the Council continue to work closely with the independent reviewer, to ensure that phase 2 of the review was completed in a timely manner.

We will review the governance arrangements in place for the Waste Service, and consider the progress made by the Council to review other options for the delivery of the refuse collection service.



Potential impact of a lack of stable leadership due to significant level of turnover of key staff and officers

In recent years the Council has been subject to a significant level of change in senior individuals and officers. Since 1 April 2019, the Council has had four Chief Executives, two Chief Financial Officers, and four Monitoring Officers, and for the 2020/21 financial year, both the Chief Executive and the Chief Financial Officer have been interim posts.

There is a risk that this level of change could weaken the Council's governance arrangements, as a result of a lack of leadership stability.

Through inquiry and a review of relevant documentation, we will gain an understanding of the processes undertaken by the Council to ensure that any instability resulting from the changes in the leadership team during the financial year were minimised.

Other areas of focus

Our initial risk assessment procedures regarding the Council's arrangements to secure value for money have not identified any other risks of significant weaknesses in arrangements, however we will complete further risk assessment procedures as part of our detailed work. This work is currently planned to primarily focus on the arrangements in the following areas, but may increase in scope as further work is performed.

- Changes in response to Covid-19 and the impact of the pandemic on the Council's financial position, including the capital programme.
- Setting the Medium Term Financial Plan and capital strategy and achieving financial sustainability.
- Governance arrangements.
- Service transformation and innovation.
- Working with your key partners to deliver services efficiently and improve the lives of local residents.

Risks of significant VFM weaknesses cont.

We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out overleaf.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

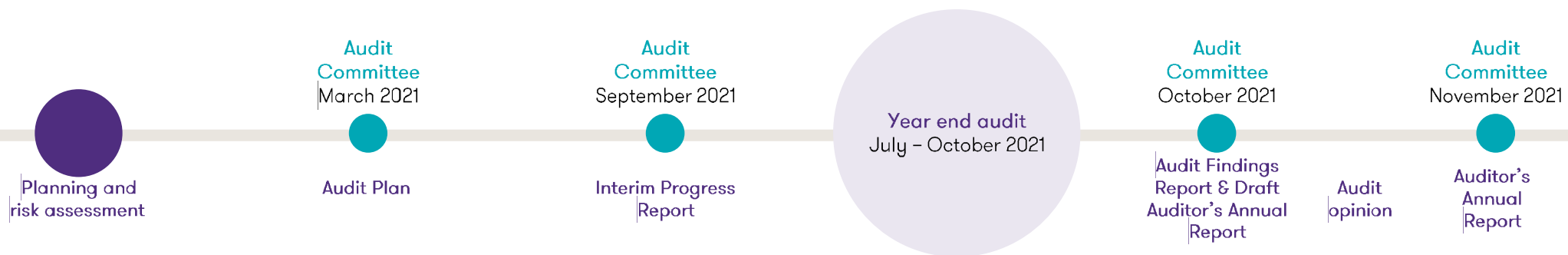
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



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, and ensure our audit is tailored specifically to you. Jon is responsible for the overall quality of our audit work, and will sign your audit opinion.



Laurelin Griffiths, Senior Manager

Laurelin will work with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis. She will be responsible for the delivery of our work on your arrangements in place to secure value for money, 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.



Zak Francis, Support Manager

Zak will assist Laurelin in ensuring that testing is delivered and issues are addressed on a timely basis. He will perform initial reviews of the team's work, and will provide support on the delivery of our work on your arrangements in place to secure value for money.



Kirsty Lees, Audit Incharge

Kirsty will work directly with the finance team during our 'on site' visits and manage the day-to-day work of the more junior members of our audit team. She will complete work on the more complex areas of the audit, and will provide support to Zak and Laurelin 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 body 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 body 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 samples 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 ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years, which will result in an increased fee.

Additionally, 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 noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

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 obtain for our work on property valuations, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21 has not yet been finalised, but due to the changes in approach we anticipate that a fee variation will be needed. We will discuss this with management and those charged with governance in due course.

Assumptions

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

- prepare a good quality set of accounts, 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.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£288,609	£333,659 (to be determined by PSAA)	TBC
Audit of subsidiary companies:			
• Acivico Limited	£40,000	£35,000	TBC
• NEC (Developments) plc	£35,000	£35,000	
• PETPS subsidiaries	£22,500	£37,500	
Total audit fees (excluding VAT)	£386,109	£404,909 (to be determined by PSAA)	TBC

Audit fees – detailed analysis

Scale fee published by PSAA	£241,909
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£13,000
New standards and developments	£4,000
Enhanced audit procedures for Property, Plant and Equipment	£10,000
Enhanced audit procedures for Pensions	£4,500
Enhanced Audit Report	£4,000
Local issues	£20,000
Covid-19 impact	£36,250
Audit fee 2019/20	£333,659
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VFM) under new NAO Code	TBC
Increased audit requirements of revised ISAs	TBC
Total audit fees (excluding VAT)	TBC
Note, at the time of drafting this plan, local audit fees were being discussed nationally with PSAA and MHCLG following publication of the Redmond Review. We will update members on the implications for your audit fee for 2020/21 as soon as we are able	

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 were 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 cont.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of 2019/20 Teachers' Pension return (October – November 2020)	7,500	For these three audit-related services, we consider that the following perceived threats may apply:	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit of £241,909 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 2019/20 Housing Benefits subsidy (August 2020 – January 2021)	27,500	<ul style="list-style-type: none"> Self-Interest (because these are recurring fees) 	Our team have no involvement in the preparation of the form which is certified, and 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, and is performed after the audit of the financial statements has been completed.
Certification of 2019/20 Housing capital receipts (January 2021 – ongoing)	5,500	<ul style="list-style-type: none"> Self Review 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 engagements in 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 (planned for April 2021)	15,000	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 £15,000 in comparison to the confirmed scale fee for the audit of £241,909 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.
Non-audit related			
None identified			

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	✓
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

Informing the audit risk assessment for Birmingham City Council 2020/21

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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 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 your business or any 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.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	5
Fraud	8
Laws and Regulations	14
Related Parties	17
Accounting Estimates	20

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Birmingham City Council's external auditors and Birmingham City Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from Birmingham City Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>There are a number of external factors that affect the delivery of council services, some of which are operational, rather than financial statement items, but may be included in your assessment of value for money. The key items include:</p> <ul style="list-style-type: none"> • The impact of COVID on the delivery of services and on the local economy • Continued work with BHL on the Highways PFI agreement • Planning for the 2022 common wealth games, and in particular closing the partner funding gap • Improving our governance arrangements with respect to Waste Services <p>Our material judgements and estimates are:</p> <ul style="list-style-type: none"> • Property valuations; • Pension valuations • Equal pay provision <p>The council uses experts to support our assessments of these estimates. However, a small change in some of the underlying assumptions could have a significant impact on the financial statements.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Birmingham City Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes, we continually review the appropriateness of our accounting policies, which are based on those included in the CIPFA code guidance. The audit committee of the council reviews and approves the accounting policies each year. There are no events that would give rise to us requiring to change any of the policies we adopted in the prior year.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Yes, the council does have financial instruments. There are not expected to be any new items in 2020/21 compared to those previously disclosed in note 40 of our 2019/20 financial statements. The policy for the use of financial instruments is as set out in, and approved annually in, the council financial plan.</p>

General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business?	None that aren't listed in the answer to question 1 above
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We will be doing an impairment review on our NCA as part of our close process, which will include obtaining information across our directorates. Currently, we do not expect any material impairments. However, the spread of Covid-19 and the impact on the economy does increase the level of un-certainty in asset values which will have to be taken into account in the financial statements.
6. Are you aware of any guarantee contracts?	We have a small number of guarantees – specifically where we guarantee the contributions for an ex employee's pension who has TUPE'd out of BCC.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	<p>We do a full review across all directorates of any un-asserted claims and potential losses as part of our close process. Currently, we expect to be considering disclosure of at least the following contingent liabilities, inter alia:</p> <ul style="list-style-type: none"> • Potential liabilities arising as a result of our accountable body roles • Housing benefit claims • Equal pay claims • Employee compensation claims • Letters of support • MMI settlement scheme • NHS trust section 47 business rates claims • Potential liabilities arising as a result of TUPE of staff, specifically in relation to their pensions • The outcome of employment tribunals in relation to liabilities connected to sleep in shifts.

General Enquiries of Management

Question	Management response
8. Other than in house solicitors, can you provide details of those solicitors utilised by Birmingham City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years.	The council uses a range of external solicitors to supplement internal provision, depending on caseload and the nature of the case under consideration. A full list of all solicitors used can be provided upon request.
9. Have any of Birmingham City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No items of fraud were significant enough to impact on the financial statements
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The council uses a wide range of advisors, a full list of which can be provided on request.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Birmingham City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Birmingham City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Birmingham City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Although there is ongoing risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include various pieces of work carried out by our internal audit team on high risk areas, and a dedicated counter fraud team to investigate allegations of fraud.</p> <p>The Counter Fraud team undertake reactive, and proactive investigations across the organisation, which includes higher risk areas such as social housing and council tax. The risk of material misstatement of the accounts due to un-detected Fraud is considered low.</p> <p>A full fraud risk assessment was undertaken in 2020, highlighting areas of proactive counter fraud work and taking into account previous areas of concern and areas which have been identified nationally by the CIPFA fraud and corruption tracker as representing either a high, or emerging fraud risk. Proactive work around has been tailored around those areas which have identified as being high risk. A schedule of data extract reports run from the main financial systems to identify potential fraud and error. This has formed the bulk of our work during the period of lockdown. Although we have been unable to continue with our programme of Fraud Awareness Training, we have recently procured an e-learning solution, which we are looking to rollout in 2021/22.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The CIPFA Fraud and corruption tracker continues to identify Council tax as the highest area of potential fraud risk. The two highest perceived areas of fraud risk are procurement and single person discount council tax fraud. We agree that these are the critical areas of focus and highest risk classes of accounts and transactions that may be subject to fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Birmingham City Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Internal audit log all cases of suspected fraud, error and procedural non-compliance. Since 1/4/2020 114 referrals have been received in the year to date. This does not include application fraud (Social Housing and Council Tax). The increase on last year is mainly due to the large number of referrals relating to COVID business support grants, of which there have been 35 to date.</p> <p>Details of all internal audit investigations are circulated each month to the relevant directors, who also receive the audit reports on the conclusion of an investigation. An annual Fraud report covering internal audits work on fraud is presented annually to the audit committee.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Birmingham City Council where fraud is more likely to occur?</p>	<p>As noted above, council tax fraud and in particular, single person discount fraud remain a specific fraud risk to the council, in line with the CIPFA report. In recent years the council has committed very significant resource to addressing this risk, including training of all adult social care managers. Internal audit have also worked with corporate procurement services to address the perceived risk in relation to serious and organised crime accessing public sector contracts.</p> <p>Further details on the work performed by our internal audit team, and our counter fraud team in these areas can be provided on request.</p>
<p>5. What processes does Birmingham City Council have in place to identify and respond to risks of fraud?</p>	<p>The council has an anti fraud and corruption policy and fraud response plan, which set out a zero tolerance stance to fraud. This is supported by the financial regulations which require all suspicions of financial irregularity to be reported to internal audit.</p> <p>Regular data matching exercises are undertaken through internal audits data warehouse facility and proactive data analytical routines are run on a periodic basis to highlight exceptions to data that may indicate fraud or error.</p> <p>Internal audit participates in the CIPFA fraud tracker, and reviews the results to inform its risk assessment and planning.</p> <p>We publish a number of fraud related articles, including a bi annual fraud spotlight, with similar material distributed to all our schools and the Adult social care team. If there is a particular concern we can distribute specific focussed advice through the Schools noticeboard. Our Policies standards and procedures guidelines contain a chapter on fraud and we can provide bespoke training on specific cases as required.</p> <p>We have a number of procedures in place for reporting fraud, including an inline referral form, a hotline and a whistle blowing process. All fraud referrals are risk assessed. The findings of internal audit work on fraud are reported with appropriate disciplinary and or systems related recommendations. In addition, internal audit will refer cases to the police where there is firm evidence of criminality.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Birmingham City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective, where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>There are sufficient internal controls in the systems to help prevent, deter and detect fraud. Compliance with the controls is monitored by management and tested by internal audit. Data analytics are used to proactively check for compliance and highlight any exceptions.</p> <p>Our financial reporting processes include numerous controls – not least of which are the layers of checking, and review that are performed through submission and finalisation of our reporting. Budget managers are responsible for managing their budgets. City finance staff challenge assumptions and input the forecasts and these staff have a reporting line to the Finance director. Directors are ultimately responsible for their budgets and sign off these at a directorate level. All corporate and capital monitoring reports undergo carious levels of quality control before publication and public reporting.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No.</p>

Fraud risk assessment

Question	Management response
<p>8. How does Birmingham City Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The staff code of conduct forms part of the contract of employment. The code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow. There are specific guidelines for dealing with employee fraud relating to benefits, social housing, council tax and blue badges. Business practices are laid out in the policies and standards procedures and guidelines database.</p> <p>There is a requirement in the financial regulations that all staff report suspected financial irregularities, which is included in the staff induction process. There is a whistleblowing policy in place, which includes schools, and a dedicated whistleblowing reporting mailbox. All disclosures are administered through a senior member of staff in legal services. All fraud awareness literature, including that available on the employee portal includes an email address and telephone number for fraud reporting. An online referral form is in place on the employee portal and on Birmingham.gov.uk. In addition, fraud spotlight deals with general fraud issues and encourages staff to be alert to fraud. No significant issues have been reported in the year.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Those involved in the procurement of goods and services and managing contracts, those involved in the planning process and those involved in the processing of high value transactions.</p> <p>There are adequate internal controls within the systems to help prevent, deter and detect fraud. Compliance with the controls is monitored by management as part of the day to day governance arrangements and is reviewed by internal audit as part of delivering its audit plan.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Members and senior offices are required to make full disclosure of any relationship that impact on their roles. Members are required to declare any relevant interests at council and committee meetings. Reports provided through the NFI are being used by internal audit to help identify any undeclared relationships, along with proactive exercises analysing data from the main financial systems.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal audit provides the audit committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the actions taken in response. The committee approves the anti fraud and corruption policy, fraud response plan and prosecution and sanctions policies. The committee receives an annual report on fraud which includes updates on other initiatives such as NFI.</p> <p>The audit committee will seek an explanation from management as it see fit, where it is felt that failings have led to either instances of fraud and error, or an increase in the risk of fraud and error.</p> <p>In our Annual Fraud Report we have highlighted the problem of salary overpayments and the Audit Committee have sought assurance from management that measures are being taken to reduce the level of overpayments. In last year's Annual Fraud Report we flagged up the potential impact of the COVID restrictions on our ability to investigate tenancy fraud, and the impact that this would have in recovering social housing properties. In response we have re-prioritised our resources to investigate fraudulent housing applications and redeployed staff to investigate COVID business support grant frauds.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Whistleblowing allegations are reported to legal services who will determine whether matters are to be treated as protected disclosures as defined under the BCC whistleblowing policy. Allegations of fraud and corruption will invariably be referred to internal audit to investigate. No significant issues have been reported during the last financial year.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Birmingham City Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Birmingham City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>This is dealt with in the annual governance statement.</p> <p>All reports to committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for decision reporting.</p> <p>The monitoring officer is responsible for ensuring that the council is compliant with laws and regulations. The Council's constitution notes that these responsibilities include:</p> <ul style="list-style-type: none"> • Report on contraventions or likely contraventions of any enactment or rule of law • Report on any maladministration or injustice where Ombudsman has carried out an investigation • Receive copies of whistle blowing allegations of misconduct • Investigate and report any misconduct in compliance with regulations • Advice on vires issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members <p>The monitoring officer has access to all council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific issue, they would get involved at an early stage, including vetting reports for legal issues. Senior lawyers in legal services undertake corporate governance reviews of reports to Cabinet and Cabinet members.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the annual governance statement process that is approved separately by the audit committee.</p> <p>Regular updates of the Council's risk register are considered by CMT and the Audit committee. The financial and legal implications are set out in the committee reports.</p> <p>Reassurance to the Resources Overview and Scrutiny committee would be through the reports to the committee where they were appropriate.</p>

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	No – all high risk matters are included in our high risk case register, which also has a financial impact limit on it. This is reviewed every two weeks to ensure it is up to date. No items have been noted that are related to non compliance with laws and regs.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None that have not already been included in our out turn or forecasts. There are always ongoing cases and claims against BCC which are all individually assessed by our legal team – full details of all such activity can be provided as part of the audit.
5. What arrangements does Birmingham City Council have in place to identify, evaluate and account for litigation or claims?	<p>Claims involving the Highest risk to the council are regularly monitored by the legal and governance management team and reported to the council corporate management team.</p> <p>Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities depending on the degree of uncertainty.</p>
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Related Parties

Matters in relation to Related Parties

Birmingham City Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Birmingham City Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Birmingham City Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Birmingham City Council whether Birmingham City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>The Council, by nature of its activities, has a significant list of related parties with which it transacts. As an audit planning tool, you can use note 49 from the 19/20 accounts as a good starting point for these bodies, and we will inform you if there are any material changes to this list before the audit starts.</p>
<p>2. What controls does Birmingham City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and Senior Officers are required to complete an annual register of interests. Members and offices are also required to declare any interests relating to matters to be discussed in each meeting.</p> <p>The council nominates representatives to organisations which are approved via cabinet and other committees. Reports on representation on organisations boards are reported to the cabinet committee – Group company Governance (CC-GCG).</p> <p>The Council also has relationships with organisations where it is a shareholder or member of that organisation. These relationships are reported to the CC-GCG on a regular basis.</p>

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	As reported in our annual governance statement, members receive regular training, and have access to online content to support the appropriate governance of their role and their compliance with laws, regulations and the requirements of the role. This includes training on related party transactions, and the expectations of their role in ensuring only appropriate transactions are undertaken, and that all are approved in line with BCC requirements, and reported on.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	<p>All transactions have to follow standard BCC procurement guidelines, which include a number of key controls at each step in the transaction.</p> <p>Related party transactions are captured, and reported on in full.</p> <p>The controls above are in place for <u>all</u> related party transactions, regardless of whether they are inside, or outside the normal course of business.</p>

Accounting estimates

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors 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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>The three main area of accounting estimates related to</p> <ul style="list-style-type: none"> • Property valuations • Pension valuations; and • The equal pay provision <p>There are no changes in our approach to calculating theses estimates over the prior year approach.</p>
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	<p>All critical areas of accounting judgement are flagged to the service finance team, and central accounts team as part of our financial close planning, and ongoing financial management throughout the year.</p>
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>The council manages its process of estimates through:</p> <ul style="list-style-type: none"> • Embedding finance business partners in each of our directorates to work with the services to identify, support and monitor all estimates • Using an experienced, central accounts team including technical accounting expertise in order to support the wider finance team where necessary; and • Disclosing all areas of material estimate and uncertainty in our accounts
4. How does management review the outcomes of previous accounting estimates?	<p>Each year, all significant accounting estimates are reviewed and considered as part of our process to close the books. Where there has been a material deviation in the estimate based on events subsequent to the previous filing, we will consider whether an opening balance sheet adjustment is required based on the requirements of accounting standards, and the need for transparency in our financial reporting.</p>
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	<p>No</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	At the moment, the council considers that its central accounts / finance team has sufficient knowledge and experience to oversee the process of managing accounting estimates. In the course of that management, all areas where additional expertise is required are identified. Where external SME input is required, like in the case of valuations, appropriate, qualified professionals are called up to support the team with their judgement.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Where we use SMEs, we consider the nature of their qualifications and the extent of their expertise. All reports provided are reviewed, and checked for consistency and accuracy, and a significant exercise is undertaken, in particular in the property estimates, to check for outliers and anomalies that might indicate wider systemic error.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Regular monitoring reports are provided to Cabinet, and are subject to further review as necessary. Reports on specific areas, such as the highways PFI, equal pay or the Paradise re-development are all considered directly by the audit committee.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> • Management's process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements. 	We have a tiered approach to review and management oversight of accounting estimates. Detailed work is carried out in the service finance team, and the central accounts team. Where there are significant estimates, these are discussed with the s151 officer, who oversees the subsequent work to calculate and disclose outcomes. The Audit committee is briefed on all such matters regularly, and oversees the outcomes that management arrive at, and the presentation and publication of the financial statements.
10. Is management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None other than noted above.

Accounting Estimates - General Enquiries of Management

Question	Management response
11. Are the management arrangements for the accounting estimates reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	See answer to 8 above.



Appendix – Accounting Estimates

Property, plant, and equipment (other land and buildings, surplus assets and council dwellings) valuation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>Asset valuations by their nature include a degree of uncertainty. The impact of Covid-19 may add an increased level of uncertainty in our estimates this year.</p> <p>The key mitigations that we have in place are 1) Estimates provided by valuers in line with RICS requirements; and 2) a process of review and challenge, particularly focussed on outliers.</p> <p>Disclosures will be provided in the accounts that set out the basis of valuation, the uncertainties included within that valuation and the judgements made in arriving at them.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Management select the approach based on developing an understanding of the risk presented by the estimate, and its potential to introduce material error into the accounts. Doing so, management take into account past errors identified, the views of our expert valuers, development of the sensitivity of the result to fluctuations in assumptions and through the process of review and challenge by our final accounts team.</p> <p>The OLB balance is split into a number of different “buckets” of assets of equivalent nature, and a valuation approach applied that is applicable to the asset.</p> <p>A five year rolling revaluation programme, supplemented by annual reviews of significant changes in market value is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years in line with guidance from MHCLG. In intervening years, a desktop review of the valuation is carried out. All assets are carried at current value.</p> <p>No changes are expected to be made with respect to the models, or the methods used in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Management rely on the expert advice of the RICS qualified valuers in providing appropriate assumptions. These are then reviewed, with outliers challenged and adjusted if necessary through a rigorous internal review process.</p> <p>No changes are expected to be made to the major assumptions applied in 2020/21</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The source data is based on existing books and records, alongside any required other sources of information provided by, or sense checked by our valuers – like the indices applied to adjust assets where necessary. The accuracy /completeness of the books and records is controlled through analytical review of the final results and identification of anomalies.</p>

	No changes are expected to be made to the major sources of data used in 2020/21
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	<p>Yes, the council's own valuer has specialist skills, they are a member of the Royal Institution of chartered surveyors, and all specialist input comes from RICS qualified valuers, which may include specific challenge to assumptions or individual valuations based on any significant fluctuations or outliers identified.</p> <p>Any external support is procured in line with the BCC procurement policy, which is available on request and through doing so we ensure that all external support has the specialised skills and knowledge required for the task.</p>
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	<p>The valuer is issued with instructions as to the basis of valuation in line with the CIPFA code of practice and RICS guidance. The internal valuations may be supplemented by a number of valuations carried out by external valuers including for any specialist assets – in certain circumstances, there are peer reviews performed within the valuer's team too, where required.</p> <p>All resultant valuations are then reviewed internally, through a specific close processes implemented by the final accounts team, supplemented by review and challenge if required, by an external valuer. A process of identifications of outliers, comparison to prior year, and sense check for reasonableness is also carried out by the final accounts team.</p>
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	<p>Management consider the estimate uncertainty by developing a sensitivity analysis against key assumptions, allow the extent to which uncertainty in any of these assumptions may result in material error in the accounts. The uncertainty is further reduced by ensuring that valuations are done as close to, or on 31 March as possible.</p> <p>This uncertainty is addressed through the allocation of additional, or specialist resource, or further review steps, including increasing sampling, potentially, if necessary, to reduce any extrapolation error.</p>

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?

A simple sensitivity analysis will be completed against key assumptions, and used in determining any further review and challenge steps during the process.

Net defined benefit pension liability valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No new risks were identified.</p> <p>By their nature, a small change in one of the key assumptions, like the discount rate, could materially affect a number of the outcomes from this estimation.</p> <p>The main way that BCC addresses the risk of material error arising from uncertainties in the pension valuation is through engaging a qualified actuary, Barnet Waddingham, to produce a detailed report in their role as actuary to the West Midlands Pension fund.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>As above, the main method is the utilisation of a specialist actuary.</p> <p>The final accounts team will also review all assumptions applied, and resulting impact on the accounts, including through the sensitivity analysis performed by the actuary, and challenge any areas of significant change or inconsistency with the prior year.</p> <p>There is no change expected to be made to these methods or the model in 2020/21</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Management rely on the assumptions provided by the qualified actuary.</p> <p>We have not yet had sight of the anticipated assumptions to be applied across the calculation of the estimate – but we have been in regular dialogue with the actuary around the timetable to provide their output, and ensure that it meets our planned close timetable.</p> <p>We have not been made aware of any significant changes to the assumptions that the actuary is expecting to apply, or the model being used. However, as noted above, particularly given the length of the liabilities, a very small change in specific assumptions could have a material impact on the size of the estimate.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The main source data is employee data, which is taken from our HR and finance systems. The final accounts team extract the data in a specific format, in line with all prior year years and provide it to the actuary.</p> <p>A review is undertaken within the final accounts team of the data extracted this year, compared to the prior year, to highlight any potential outliers or unusual events – if any are identified, they are challenged prior to submission.</p> <p>There are no changes expected in the sources of data being used for this year's process.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Yes, a qualified actuary whose services are procured in line with BCC procurement policies.</p>

6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The output of the process is reviewed by the final accounts team, to ensure that they are in line with standard sector parameters, our expectations and not materially different from prior years. Where a material change is identified, the actuary is challenged to support it.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The estimation uncertainty is primarily assessed by the qualified actuary. They also provide a sensitivity analysis that allows us to consider the quantum of the estimation uncertainty, and where the point estimate falls within that spectrum of potential results.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	As above, a sensitivity analysis is provided by the actuary. Material changes in key outputs are also reviewed, and challenged as required.

Equal Pay provision estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No specific risks identified this year that would affect the material accuracy of the provision.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Estimates are based on a case by case evaluation of the liability against a framework agreement, following legal evaluation of the probability of success of a particular claim. This approach has been used for several years; no changes have been made for 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The assumptions are applied on a case by case basis as set out in the answer to question 2. No changes were made to assumptions for the estimation in 2020/21 with a consistent approach being applied to that of previous years.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Source data is obtained from HR, which is predominantly a current staffing list (updated to reflect current staffing profile in 2020/21). The Data on specific cases is provided by the Equal Pay Unit, which is extracted from a database of cases lodged, and progress is maintained by the EPU. BCC has developed a central repository for all Equal Pay claims, called Caprelus. There are no changes to the data source.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Barrister/QC and internal legal advice have been sought on the probability of success for Equal Pay claims. This is part of the standard approach in relation to Equal Pay liabilities and estimation. Services of the barrister procured in line with standard BCC procurement policy.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	A management review of the overall provision is undertaken, which is documented in our working papers, provided during the audit. Additionally, there is a reconciliation undertaken to identify changes in the estimates compared to the prior year. Any significant change in value is investigated to identify the reason.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes
8. Were any changes made to the key control activities this year? If so please provide details.	No

<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Sensitivity analysis undertaken to determine any areas of material uncertainty</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>Sensitivity analysis undertaken on the variable elements that may affect the estimates. This is provided as part of the annual working papers.</p>

Depreciation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The only two risks identified in relation to the depreciation estimate are the UEL of assets, and the underlying valuation. Both are assessed in line with the approach outlined above, and performed by professional valuers, and then reviewed for consistency by the final accounts team. A qualified RICs valuer is used to identify the most appropriate UEL, and valuation, and these, alongside the BCC depreciation policy derives the depreciation.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The method used in calculating depreciation is to do so in line with the BCC accounting policies, which have not changed this year. We will charge depreciation on a straight line basis over the remaining UEL of the asset. Depreciation is not charged in the year of acquisition, but a charged in full in the year of disposal. There are a number of potential methods for calculating and charging depreciation. The council has determined that doing so on a straight line basis over the UEL is the most appropriate method. There are no changes proposed to this approach in the current year.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	For valuations and UEL, see notes above re the approach to valuing assets. No changes are expected to be made to these assumptions in the current year.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The source data is from the Council's fixed asset registers, which maintain records for all assets held. There are no changes expected to be made to the sources of data used in the current year.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, see above for notes on approach to valuation.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	In addition to the approaches outlined above in relation to the valuation of assets, the final accounts team also perform simple analytical reviews on depreciation balances charged, and investigate any usual, or outlying charges.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No

9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	See above for approach to valuation and UEL.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See above for approach to valuation and UEL.

Expected credit losses and impairment allowances estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>The impact of COVID 19 is considered to be a specific risk in the likelihood of expected credit losses.</p> <p>These have been addressed through the service teams reviewing each of their debtor position, with regards to the repayment profile of invoices in the year, their expectation of likely recovery and any specific, expected bad debt.</p> <p>This has then been used to inform their judgement as to the expected level of credit losses.</p>
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	<p>The method applied is consistent with the prior year, utilising service team specific knowledge of the debtor balances they are managing and applying a provisioning methodology in line with IFRS9.</p> <p>We are currently reviewing the approach to arriving at the Council bad debt provision but are not expecting a material change in approach or method this year at this point.</p>
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	<p>The key assumption is the level of expected credit loss against any individual debtor. The service team staff apply their knowledge of each situation and apply that knowledge to arrive at an overall level of expected credit loss.</p> <p>There are no changes to these assumptions expected in the current year.</p>
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	<p>The principal source of data used is the underlying ledgers of BCC. No change is expected to the source of this data in the current year.</p>
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	<p>Finance staff consult service staff on the front line where appropriate to understand the debtors and likelihood of repayment – this knowledge of the credit risk in each debtor is the key skill required. Training has been delivered where required on the application of IFRS 9, but no specialist resources have been consulted.</p>
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	<p>The overall level of provision is monitored by the final accounts team – it is compared with levels provided in the prior year, and any significant changes in value or % are highlighted and investigated.</p>
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	<p>Yes.</p>
8. Were any changes made to the key control activities this year? If so please provide details.	<p>No.</p>

<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>A very simple sensitivity analysis is performed on the outcome of the bad debt provision calculation, which is used to put the size of the estimation uncertainty into context with regards to the size of the balance, and its materiality to the accounts.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>See above, a simple sensitivity analysis is performed as part of the review completed by the final accounts team.</p>

BIRMINGHAM CITY COUNCIL**AUDIT COMMITTEE****30 MARCH 2021****SCHEDULE OF OUTSTANDING MINUTES**

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
260 25/11/2020	<p><u>Independent Advisor to Audit Committee</u></p> <p><u>Additional Recommendation:</u></p> <p>iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role.</p>	Update to be provided at a future Committee.
274 26/01/2021	<p><u>Birmingham Audit – Half Year Update Report 2020/21</u></p> <p><u>Additional Recommendation:</u> (Public Sector Internal Audit Standard Compliance review)</p> <p>iv) Members agreed the overall approach to a Public Sector Internal Audit Standard Compliance review. However, Members agreed to seek further assurances to the Council undertaking the Peer Review. A further update to be provided to the Committee to reconsider options.</p>	<p>Update scheduled for 22 February 2021 meeting.</p> <p>Completed & discharged</p>
279 26/01/2021	<p><u>Assurance Session – Cabinet Member for Children’s Wellbeing Portfolio</u></p> <p><u>Additional Recommendations:</u></p> <p>ii) To provide the Committee with any outstanding reports, supporting tools related to Travel Assist at a future Committee.</p> <p>iii) To provide Members with the cost for Consultancy support, assistance to stabilise the service and the cost to build the framework for ongoing improvement within the Travel Assist Service since September.</p>	<p>Interim Chief Executive & Directors/AD’s (Children, Education & Skills Directorate).</p> <p>Documents circulated to Members by Nichola Jones on 17 March 2021.</p> <p>Action ii) and iii) of Minute 279 26/01/2021 completed.</p> <p>Completed & discharged</p>
	iv) The Council's Transformation Programme to be shared at a future Committee.	Scheduled for 29 June 2021 Committee.

284 22/02/2021	<p><u>Apologies</u></p> <p>The Chair to write to Members of the Audit Committee regarding attendance at meetings.</p>	<p>Letter sent to Members of the Committee on 01 March 2021.</p> <p>Completed & discharged</p>
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