Birmingham City Council
Audit Plan

Year ending 31 March 2021

March 2021

Contents

Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T 0117 305 7699
E Jon.Roberts@uk.gt.com

Laurelin Griffiths
Senior Manager
T 0121 232 5363
E Laurelin.H.Griffiths@uk.gt.com

Zak Francis
Manager
T 0121 232 5164
E Zak.Francis@uk.gt.com

Kirsty Lees
Assistant Manager
T 0121 232 5242
E Kirsty.Lees@uk.gt.com

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: • 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	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: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council.
Risk of fraud related to expenditure recognition **PAF Practice Note 10**	n/a	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. 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.

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	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical 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	The Council revalues its land and buildings on a rolling, five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4,943 million in the Council's balance sheet at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's (and group's) financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer 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	The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2,591 million in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management 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	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. We identified the valuation and completeness of the equal pay provision as a risk requiring special audit consideration, and a key audit matter.	We will: • update our understanding of the processes and controls put in place by management to estimate the equal pay provision; • review the assumptions on which the estimate 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

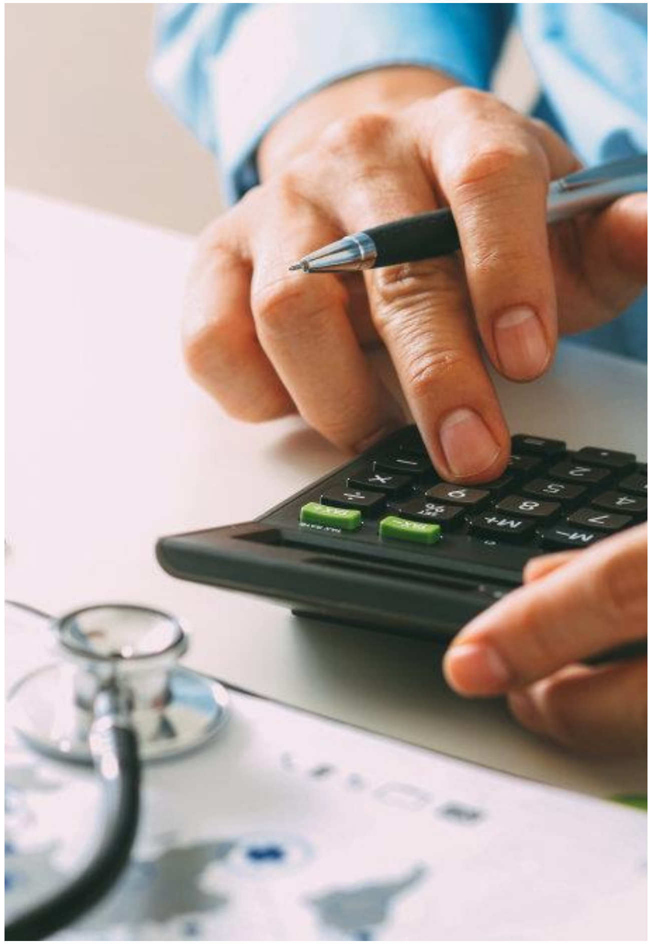
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 uncertainly 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

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.

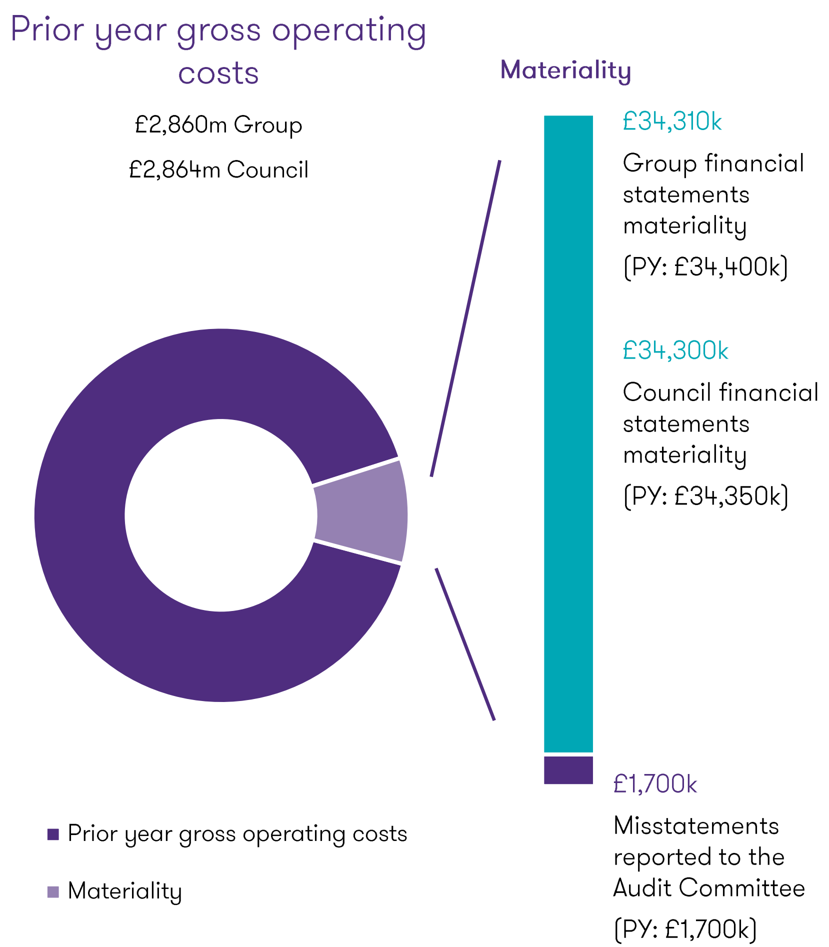
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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.



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.

	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 • NEC (Developments) plc • PETPS subsidiaries	 £40,000 £35,000 £22,500	 £35,000 £35,000 £37,500	 TBC
Total audit fees (excluding VAT)	**£386,109**	**£404,909** (to be determined by PSAA)	**TBC**

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.

Audit fees – detailed analysis

Scale fee published by PSAA	£241,909

Ongoing increases to scale fee first identified in 2019/20	
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**

New issues for 2020/21	
Additional work on Value for Money (VFM) under new NAO Code	TBC
Increased audit requirements of revised ISAs	TBC
Total audit fees (excluding VAT) 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	**TBC**

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.

<table>
<tr><th>Service</th><th>Fees £</th><th>Threats</th><th>Safeguards</th></tr>
<tr><td colspan="4">Audit related</td></tr>
<tr><td>Certification of 2019/20 Teachers' Pension return
(October – November 2020)</td><td>7,500</td><td rowspan="3">For these three audit-related services, we consider that the following perceived threats may apply:
• Self-Interest (because these are recurring fees)
• Self Review
• Management</td><td rowspan="3">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.
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.
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.</td></tr>
<tr><td>Certification of 2019/20 Housing Benefits subsidy
(August 2020 – January 2021)</td><td>27,500</td></tr>
<tr><td>Certification of 2019/20 Housing capital receipts
(January 2021 – ongoing)</td><td>5,500</td></tr>
<tr><td>AMSCI reasonable assurance engagements
(planned for April 2021)</td><td>15,000</td><td>Self-Interest (because this is a recurring fee)</td><td>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.</td></tr>
<tr><td colspan="4">Non-audit related</td></tr>
<tr><td colspan="4">None identified</td></tr>
</table>

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 od 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	✓

Grant Thornton

grantthornton.co.uk