The Audit Findings for Birmingham City Council

Year ended 31 March 2019

September 2019

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Council's Annual Governance Statement (AGS) and the Council and Group's Narrative Reports), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June, July and August. Our findings are summarised on pages 4 to 25. We have identified seven adjustments to the financial statements that have resulted in a £93.4 m adjustment to the Council's Comprehensive Income and Expenditure Statement but nil impact on the Council's General Fund balances. Audit adjustments are detailed in Appendix C. We have also raised an action plan for management as a result of our audit work in Appendix A. Our follow up of the prior year's action plan is detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the review of the final set of financial statements including the Narrative Report and Annual Governance Statement, update of our review of post balance sheet events to the date of the audit report, and receipt of the management representation letter. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified including an Emphasis of Matter (EoM) paragraph relating to contingent liabilities for Equal Pay. An EoM paragraph is added to indicate a significant uncertainty, which is disclosed appropriately in the financial statements, but which the auditor considers significant enough to warrant a mention in the audit report.
Value for Money (VfM) arrangements	Under the Code, we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Birmingham City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for Governance and the Waste strike. We therefore anticipate issuing a qualified 'except for' value for money conclusion. Our findings are summarised on pages 26 to 33.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We issued our Statutory Recommendations under section 24 of the Local Audit and Accountability Act 2014 in July 2018 and March 2019. We have considered progress made on these within the VfM section of this report. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion

Summary

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Birmingham Children's Trust Community Interest Company was required for balances material to the group, which was completed by Crowe UK LLP, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Our significant audit findings are set out on pages 9 to 22.

Conclusion

We received a good quality set of financial statements on 31 May in line with the statutory deadline. The working papers supporting the accounts have been fit for purpose and we appreciate the support that the Finance Team has given us throughout the audit.

Our audit has identified seven adjusted errors. Further details are provided in Appendix C.

Our audit has identified two non material unadjusted errors. Further details are provided within the private section of our Audit Findings Report.

We are planning to issue an unqualified opinion on the financial statements. Our enhanced audit report will include an Emphasis of Matter paragraph in relation to the disclosure of the uncertainties surrounding the volume and timing of any future equal pay claims.

We are planning to issue a qualified 'except for' Value for Money (VfM) conclusion. This is because, apart from the weaknesses in arrangements which we have identified in relation to Governance and the Waste Service, we are satisfied that, in all significant respects, the Council has put in place proper arrangement for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019. Further details are provided on pages 26 to 33.

Materiality

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Birmingham City Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	44,460,000	44,360,000	We decided that gross total cost of services expenditure in year was the most appropriate benchmark. Given the increasing level of public interest in the Council's activities during a sustained period of cost-cutting and efficiency measures we consider that it is appropriate to set the percentage applied at 1.5%.
Performance materiality	31,122,000	31,052,000	We have not previously identified significant control deficiencies as a result of our audit work however we did identify material misstatements in the 2017/18 draft accounts, which subsequently were adjusted. There have also been changes within the finance team during the year. We decided that a reduced performance materiality of 70% is an appropriate level (prior year 75%).
Trivial matters	2,200,000	2,200,000	Our trivial threshold has been calculated as 5% of materiality. We will report any errors over this threshold to those charged within governance within this report.
Materiality for specific transactions, balances or disclosures	100,000	100,000	We have identified senior officers remuneration as a sensitive item and set a lower materiality of £100,000 for testing these items based on the fact that we consider the disclosures to be sensitive and of specific interest to the reader of the financial statements.

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management assess that the Council will continue as a going concern. Whilst facing significant financial pressures in common with the rest of the public sector, the Council has contributed to reserves by £48.7m in 2018/19 rather than using planned reserves of £28.6m. Although it should be noted that this contribution is mainly due to contract payments withheld in respect of a contract dispute which will need to be released in future years to undertake the work which has not been carried out.

As at month 3 the Council’s forecast outturn is estimated to be an overspend of £17.440m. In month 3 there were additional requests to contribute to reserves of £7.885m, which when combined with planned use of reserves of £26.975m totals a requirement of £19.090m of reserves to balance the 2019/20 budget.

The Council has an ambitious savings programme of £46.2m and management has indicated that they are proactively looking to identify further savings in order to mitigate the risks of the forecasted overspend outturn position.

Auditor commentary

- Management has documented the basis of their judgement, presented this to the Audit Committee within our ‘’Informing the Risk Assessment’ ’report and the Audit Committee has endorsed it.
- Management’s assessment of the use of going concern basis of accounting is that it is appropriate because ‘’Local Authorities are required by the Code of Practice on Local Authority Accounting 2018/19 to prepare their accounts on the going concern basis, that is that the functions of the Council will continue in operational existence for the foreseeable future, as it can only be discontinued as a result of statutory prescription.’’

Work performed

We performed the following audit procedures:

- Discussions with management about the Council’s current and future financial plans;
- Considered whether the results of our audit procedures indicate the existence of going concern events or conditions which may cast significant doubt on the entity's ability to continue as a going concern;
- Review of management’s assessment of the going concern assumption and supporting information; and
- Review of the disclosures included within Note 2 of the financial statements (Critical Judgements in Applying Accounting Policies).

Concluding comments

- Whilst we acknowledge that the Council faces significant financial pressures we have concluded that the going concern basis of accounting is appropriate for the Council and our audit report is unmodified in relation to going concern.
- In terms of the Council’s ability to access cash, the 2019/20 planned debt is below its prudential borrowing limit by £277m and also below the current Capital Financing Requirement by £708m. The Council also has the ability to raise Council Tax up to 2.99%, plus a further 2% for the provision of social care.
- We are also satisfied that in a worst case scenario the Council’s remaining useable reserves could substantially cover the non-delivery of savings plans and budget pressures in 2019/20 and 2020/21.

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	Audit approach
Birmingham City Council	Yes	Audit of the financial information of the component using single entity materiality.	Please, see page 9 to 13	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Birmingham Children's Trust	No	Audit of one or more classes of transactions, account balances or disclosures relating to risks of material misstatement of the group financial statements.	Valuation of pension net liability Accuracy of expenditure	Specific scope procedures performed on the valuation of the pension net liability and the accuracy of expenditure incurred by the Council during the year. These procedures have been performed by the component auditor and we have reviewed their work papers in these areas.
InReach ltd	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	Investment properties valuation	Specific scope procedures performed on the valuation of investment properties by the group auditor.
Birmingham City Propco Ltd	No	Analytical procedures	Investment properties valuation	Specific scope procedures performed on the valuation of investment properties by the group auditor.
NEC (Developments) plc	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
Acivico Ltd	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.

Group audit scope and risk assessment (continued)

Component	Individually Significant?	Audit Scope	Risks identified	Audit approach
Innovation Birmingham ltd (disposed of in April 2018)	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
PETPS (Birmingham) Pension Fund Scottish Limited Partnership	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
PETPS (Birmingham) Ltd	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
Birmingham Airport Holdings Ltd (Associate)	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
Paradise Circus General Partner Limited (Joint Venture)	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.

Key changes within the group:

- Birmingham Children's Trust became operational on 1 April 2018
- Innovation Birmingham Ltd was disposed of during 2018/19

Audit scope

- Audit of the financial information of the component using single entity materiality
- Audit of one more classes of transactions, account balances or disclosures relating to risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant findings – audit risks

	Risks identified in our Audit Plan	Risk relates to	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Council and Group**	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams for the Council and Group, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition in the Council and Group accounts; • opportunities to manipulate revenue recognition are very limited in the Council and Group accounts; and • the culture and ethical frameworks of local authorities, 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 Birmingham City Council or the Group and there have been no changes to our assessment reported in our audit plan.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and it could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, 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.	**Council and Group**	**Auditor commentary** As part of our audit procedures we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • reviewed and tested consolidation adjustments and intra-group elimination entries. Our audit work to date has not identified any issues in respect of management override of controls.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
3 **Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)** The Council revalues its land and buildings on a rolling five-yearly basis as well as undertaking review of assets not valued in year and any movement until the year end. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion in 17/18) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. It should be noted that enhanced auditor scrutiny over the valuations of property, plant and equipment has been undertaken nationally on recommendations from the Financial Reporting Council and all Local Government Authorities have been subject to these enhanced audit procedures.	**Council**	**Auditor commentary** Upon receipt of the draft accounts we identified this risk relates to the council only. As part of our audit procedures we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer and assessed completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and those valued at 1 April 2018, and how management satisfied themselves that these were not materially different to current value at year end; • evaluated the beacons used for the HRA valuation in order to ensure that the classes used are still appropriate and reflected Council's housing stock as well as challenging the basis of valuation of such beacons; • used Gerald Eve as our auditor's expert to determine our valuation expectations and also engaged Wilkes Head and Eve LLP to complete an independent commentary on the valuations of both HRA and non HRA assets. From our initial audit procedures on the valuation of PPE we had some concerns over the valuation process as a whole, including the robustness and consistency of valuation movements. We therefore engaged an auditor's expert to provide us with additional assurance over the valuation. The outcome of this external expert review is that the overall methods and assumptions used in the valuation of PPE (specifically council dwellings, other land and buildings, and surplus assets) are appropriate and reasonable, and that the valuation movements are in line with market trends in Birmingham over the 2018/19 financial year. In addition, we have identified a number of issues as part of our work on the valuation of property, plant and equipment which are set out on the following page.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
3 **Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)**	**Council**	**Auditor commentary (continued)** **Council Dwellings** - We identified a £51.0m credit to the CIES relating to depreciation incorrectly reversed through the CIES on revaluation. We identified a similar error in 2017/18. This had no impact on net book value and has been amended for within the financial statements. **Other Land and Buildings** We identified two errors from our testing: - An understatement of £27.3m in the revaluation of secondary schools due to the incorrect primary school Modern Equivalent Asset (MEA) basis being applied. - An understatement of £26.7m in building assets valued on a Depreciated Replacement Cost (DRC) basis. This is due to the historic process of capitalising expenditure which did not impact upon the current value of the asset, and including depreciation within the assets revaluation when uplifted by Building Cost Information Service (BCIS) indices. Both of these have been amended for within the financial statements. **Surplus assets** - We identified an overstatement of £93.5m in the revaluation of surplus assets due to a valuation processing error where the valuation was applied to an incorrect asset. Whilst significant, this error makes up 1.6% of the total properly, plant and equipment asset base for the Council. This has been amended for within the financial statements. **Conclusion** Apart from the points noted above, our audit work has not identified any further issues in respect of valuation of property, plant and equipment (specifically council dwellings, other land and buildings and surplus assets). None of the adjustments above impact on the Council's General Fund Balances,

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
4 **Valuation of pension fund net liability** The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's 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. It should be noted that enhanced auditor scrutiny over the valuations of pension fund net liabilities has been undertaken nationally on recommendations from the Financial Reporting Council and all Local Government Authorities have been subject to these enhanced audit procedures.	**Council**	**Auditor commentary** As part of our audit procedures we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work, and assessed the competence, capabilities and objectivity of this management actuary; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • requested assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data, benefits data and fund assets data sent to the actuary by the pension fund; and the assets held by the pension fund at 31 March 2019; • performed analytical procedures on movements in pension assets and liabilities during the year We identified a number of risks as part of our work on the valuation of pension fund net liability: • McCloud judgement – the Council has proactively responded to this emerging national issue by obtaining a revised IAS 19 valuation from its actuary. The accounts have been amended to reflect an increase of £48.6m in the net pension liability with a related impact on the CIES. • Guaranteed Minimum Pension (GMP) – we have considered the actuary's approach to inclusion of GMP liabilities in the Council's net pension liability and have identified that the Council's pension liability may be overstated by approximately 0.15%, or £10m. • Use of estimated data – we identified a difference of £9.1m between the actuary's estimate of annual pensionable pay used to calculate the service cost for the year, and the actual pensionable pay for the Council for 2018/19. • Birmingham Children's Trust settlement – we identified a discrepancy of £6.1m between the value of liabilities transferred out of the Council's pension liability and that transferred into the Children's Trust pension liability. Upon receipt of the draft accounts we identified that this risk relates to the council only. Further details on these are set out on the following pages. We are satisfied these issues do not indicate a risk of material misstatement within the estimate.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
4 Valuation of pension fund net liability (continued)	Council	**Auditor commentary (continued)** **Impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighter's pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for judges' pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. This issue came to light after the production of the draft accounts and was not include in the Council's initial actuarial valuation. The Council requested a revised IAS 19 report from their actuary and have amended the financial statements to reflect the revised report taking into account the impact of the McCloud ruling. The amendments are as follows: • Increase to pension liability of £48.6m • Increased charge to the CIES of £48.6m • Additional disclosures relating to the change We have reviewed the IAS19 report produced by the actuary and undertaken procedures to confirm the reasonableness of the actuarial assumptions used, including their consistency with the original actuarial valuation. **GMP** In March 2016 the Government announced an "interim solution" for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and 5 December 2018. In January 2018 they decided to extend this solution for a further two years to April 2021. Separately on 26 October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. For affected clients, the impact will be to increase the defined benefit pension obligation. However, for public services schemes HM Treasury have announced that they do not expect this ruling to have any impact on public sector schemes due to the GMP equalisation arrangements summarised above. We have considered the impact of GMP equalisation and utilised PwC as auditor's expert in this area. Barnett Waddingham has allowed for the "interim solution" to 5 December 2018 within their IAS 19 valuations and have also included an allowance for potential allowances post 2021. Based on our review, we have identified that the Council's pension liability may be overstated by approximately 0.15%, or £10m. We are satisfied that this does not indicate a risk of material misstatement within the estimate.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
4 Valuation of pension fund net liability (continued)	Council	**Auditor commentary (continued)** **Use of estimated data** In line with normal practice, the actuary has used estimated data, including pensionable pay, based on 9 months' data, grossed up to 12 months. We identified there was a difference of £9.1m between the actuary's estimate of annual pensionable pay used to calculate the service cost for the year, and the actual pensionable pay for the Council for 2018/19. In part this was due to the estimated figures including one month of pay prior to the transfer of staff to Birmingham Children's Trust. If actual pensionable pay had been used, we estimate that the current service cost and the pension liability would be £3.2m lower than the figures estimated by the actuary. We are satisfied that given the nature of the estimate, this is reasonable and the discrepancy does not indicate a risk of material misstatement. **Discrepancy in value of Birmingham Children's Trust settlement** The transfer of staff to Birmingham Children's Trust on 1 April 2018 has resulted in a transfer of pension assets and liabilities from the Council to the Children's Trust, which has impacted on the Council's accounts. We reviewed the value of this settlement for reasonableness. We identified a discrepancy of £6.1m between the value of liabilities transferred out of the Council's pension liability and that transferred into the Children's Trust pension liability. The pension fund has confirmed that this relates to differences in the duration of liabilities for each employer, which means the actuary has used a different discount rate. We are satisfied this approach appears reasonable and that although this results in a mismatch upon consolidation into the group accounts, the difference is immaterial. We also tested the data used to calculate the value of the settlement transaction. We noted that this was based on staff data from August 2017, which indicated 1421 members of the pension fund were expected to transfer. The actual number of pension fund members who transferred on 1 April 2018 was 1576, which is 11% higher than the numbers used in the actuary's estimate. The settlement transaction has resulted in a reduction in the Council's net pension liability of £81.8m during the year. Therefore we are satisfied that the estimation uncertainty that may arise due to the above does not indicate a risk of material misstatement estimation uncertainty. We are satisfied that these issues do not indicate a risk of material misstatement within the estimate. **Conclusion** We are satisfied that the amended accounts reflect a reasonable estimate of the Council's pension liability including the impact of the McCloud judgement, and that the remaining issues identified do not indicate a risk of material misstatement of the estimate. We have set out further details of our review of the actuary's estimation process on pages 20 to 21. Amendments have not been made to the group accounts for the impact of McCloud on the pension liabilities of subsidiaries, as the changes are not considered to be material.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
5 **Valuation of equal pay liability** Under ISA540 (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 of the equal pay provision as a risk requiring special audit consideration.	**Council**	**Auditor commentary** Upon receipt of the draft accounts we identified this risk relates to the council only. As part of our audit procedures we have: • updated our understanding of the process and controls put in place by management and evaluating the design of the associated controls in place to estimate the equal pay provision; • evaluated the assumptions on which the equal pay provision estimate was based; • assessed the events or conditions that could have changed the basis of estimation; • reperformed the calculation of the estimate on a sampling basis; • undertaken procedures to assess whether the estimate has been determined and recognised in accordance with accounting standards; • determined how management assessed the estimation uncertainty; and • evaluated the impact of any subsequent transactions or events. Please see our private report for our conclusion on the valuation of equal pay liability. We are satisfied that the financial statements are not materially misstated in respect of the valuation of the equal pay liability.

Significant findings arising from the group audit

Findings	Group audit impact
Within the 'Group audit scope and risk assessment' page we have provided an update as to our audit approach taken to the Group. This is slightly different from our Audit Plan communicated in June 2019.	There have been minor changes to our audit approach.
We identified one audit adjustment from our work on the group consolidation in relation to intra-group eliminations between the Council and Birmingham Children's Trust (BCT). This relates to the elimination of entries relating to the settlement transactions within the pension liabilities of the Council and BCT upon the transfer of staff to BCT on 1 April 2018.	The accounts have been amended for this issue.
As in previous years, group accounts have been produced from unaudited accounts for all group entities included in the consolidated Balance Sheet. Audited accounts are received by the finance team throughout the audit process but to date no audited accounts for consolidated entities have been received. Due to information delay management accounts or draft accounts have been used to consolidate all of the council's subsidiaries, associates and joint ventures which have been included within the group accounts.	We have not identified a material risk due to the size of the majority of the Council's consolidated components. We will obtain a final update from the auditors of the Birmingham Children's Trust prior to issuing our audit opinion, to provide assurance that there are no additional material adjustments that are required to the Council's group accounts.

Significant findings - other

Area of audit	Findings	Audit impact
Completeness of expenditure	As part of our planned audit testing, we tested a sample of payments made in April and May 2019 in order to identify if payments relating to 2018/19 expenditure had been appropriately accrued. We identified a number of items which had not been accrued, we extended our sample further and identified a further item that had not been accrued. We raised a similar point in 2017/18 about Waste accruals and it may be indicative of wider weaknesses in the Council's arrangements for the controls over accruals of income and expenditure. Due to the level of errors identified, and in particular the value of two of these errors, we were unable to gain sufficient assurance from our sample testing. The Council has performed further analysis of invoice payments made from 1 April 2019 to 22 August 2019 for invoices dated prior to 1 April 2019. The results of this work is summarised below:	Based on the work performed, we are satisfied that there does not appear to be a material risk of understatement of either capital or revenue expenditure. We have raised an action plan point regarding controls around invoice accruals.

Results of Council's analysis	Capital £m	Revenue £m	Other £m	Total £m
Tested – accounted for correctly	11.8	48.0	16.8	**76.6**
Tested – not accounted for correctly	5.2	4.4	0.0	**9.6**
Not tested	0.6	12.7	0.0	**13.4**
Total	**17.6**	**65.1**	**16.8**	**99.6**

We have reviewed a sample of these invoices to gain assurance over the Council's assessment.

It should be noted that some of the invoices making up these values include VAT. As some of this VAT will be recoverable, the impact on the Council's accounts would be lower than the values shown above, however, it is not feasible to take this out due to the complexities of VAT recovery and the volume of invoices involved.

The council has also identified £1.3m of income related to invoices that were not recognised in 2018/19 but were fully funded. As the related income was not fully recognised, this partially offsets the errors identified.

Significant findings – key judgements and estimates

We have reviewed the Council's accounting policies with regard to judgements and estimates and are satisfied that they are appropriate and in accordance with the recommendations of the CIPFA Code. Please also see the relevant section of the private report.

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £2,445m	The Council owns 60,836 dwellings and is required to revalue these properties with regard to the Department for Communities and Local Government's (DCLG's) (now known as Ministry of Housing, Communities and Local Government (MHCLG) Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £2,445m, a net increase of £161.2m from 2017/18 (£2,283.8m).	The assets have been valued on EUV-SH basis with a regional adjustment factor of 40% - this is in line with DCLG (now known as MHCLG) Guidance. The Council Dwellings have been grouped into archetypes which forms the basis of the beacon valuation method. The 28 Archetypes were determined by Savills. Two new Archetypes have been subsequently added in 2010/11 for the Birmingham Housing Municipal Trust (BHMT). The Council has applied a £5k adjustment rate within archetype valuations in order to account for the number of bedrooms. We have challenged this assumption and are satisfied that the adjustments for bedrooms is not materially misstated. The Council Dwellings were valued on 1 April 2018 but were revalued at 31 March 2019 to reflect a significant change in the market valuation. We have tested the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16.	● **green**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £2,384.2m	Other land and buildings comprises £1,733m of specialised assets such as schools and libraries, which are valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £654m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 1 April 2018 on a five yearly cyclical basis. 65% of the total value of the assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £63.7m. Management has considered the year end value of non-valued properties, by applying a revaluation rate determined from properties valued in year, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £2,384.1m, a net decrease of £60.4m from 2017/18 (£2,444.5m).	Other land and buildings are valued at 1 April 2018 and have been assessed to be not materially different to the current value at 31 March 2019. This has been reviewed in line with market data and we are satisfied this is reasonable. Buildings valued on a DRC valuation basis at 1 April 2018 are uplifted by the BCIS indices to reflect changes in build costs in year. The valuation uplift has been agreed to indices provided by the Royal Institution of Chartered Surveyors (RICS). Buildings valued on a DRC valuation basis that are not part of in year formal revaluation programme are uplifted by BCIS indices to reflect changes in build costs since 2017/18. The valuation uplift has been agreed to indices provided by RICS. We have tested the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16.	● **green**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £2,552.0m	The Council's net pension liability at 31 March 2019 is £2,552.0m (17/18 £2,587.9m) comprising the West Midlands Pension Fund Local Government funded and unfunded defined benefit pension scheme obligations, and the unfunded teachers' defined benefit obligation. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £139.5m net actuarial gain during 2018/19.	We have performed an assessment of the estimate, considering the following areas: • We have utilised PwC as auditor's expert to assess the competency, capability and objectivity of Barnett Waddingham as management's expert and identified no concerns. • We have utilised PwC as auditor's expert to assess the actuary's roll forward approach taken. We are satisfied that the approach taken by Barnett Waddingham is reasonable and that it is unlikely to lead to a material difference in the liabilities at 31 March 2019. • We have utilised PwC as auditor's expert to assess the assumptions made by the actuary – a summary of our work is set out in the table below:	● green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.35% to 2.45%	●
Pension increase rate	2.4%	2.4% to 2.45%	●
Salary growth	3.9% long term, with a short-term overlay for salaries to rise in line with the Consumer Price Index (CPI) (2.4%) to 31 March 2020	Combination of short and long term assumptions	●
Life expectancy – Males currently aged 45 / 65	22.6 years / 20.9 years	22.2 years to 25 years / 20.6 to 23.4 years	●
Life expectancy – Females currently aged 45 / 65	25 years / 23.2 years	25 years to 26.6 years / 23.2 to 24.8 years	●

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments (continued)	Assessment
Net pension liability – £2,552.0 m		• We have tested the completeness and accuracy of the underlying information used to determine the estimate. This includes testing of data submitted by the Council to the West Midlands Pension Fund, and obtaining assurance from the auditors of West Midlands Pension Fund over the data submitted by the pension fund to the actuary. As noted on page 14, if actual rather than estimated pensionable pay had been used, we estimate that the current service cost and the pension liability would be £3.2m lower than the figures estimated by the actuary. We are satisfied that given the nature of the estimate, this is reasonable and the discrepancy does not indicate a risk of material misstatement. • We utilised PwC as auditor's expert to review the methods used by the actuary and confirmed that Barnett Waddingham have updated their post-retirement mortality assumptions in 2018/19. In line with PwC's conclusions, we have not identified any reasons that this change would not be appropriate for the Council. There were no other significant changes to the valuation method in 2018/19. • We have performed analytical procedures to assess the reasonableness of the Council's share of LGPS pension assets. As part of this we have requested assurance from the auditors of West Midlands Pension Fund over the assets held by the West Midlands Pension Fund at 31 March 2019. • We have utilised PwC as auditor's expert to review the reasonableness of the decrease in the estimate of the Council's pension liability. The majority of the decrease relates to the transfer of staff to Birmingham Children's Trust on 1 April 2018, with a resultant transfer of pension liabilities taking place. As noted on page 14, there is a discrepancy of £6.1m between the value of the liabilities transferred out of the Council's pension liability and that transferred into the Birmingham Children's Trust pension liability, as well as a discrepancy in the data used to calculate the settlement value. • We have reviewed the revised IAS19 report produced by the actuary including the impact of the McCloud judgement, and undertaken procedures to confirm the reasonableness of the actuarial assumptions used, including their consistency with the original actuarial valuation. We are satisfied the estimation basis is reasonable. The accounts have been amended, though it should be noted that this has no impact on the General Fund. • We are satisfied that the estimate has been adequately disclosed in the financial statements and supporting notes. Additional disclosures have been added relating to the McCloud judgement.	● **yellow**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Money Market Funds	In the draft accounts, the Council classified investments in money market funds at amortised cost under IFRS 9.	We challenged this classification as depending on the terms of the investment it may be appropriate to classify such investments at fair value through profit and loss. Upon further review the Council has reclassified £56.3 of money market funds to fair value through profit and loss. Due to the short term nature of the investments the Council has determined that there has been no change in value due to the change in classification.	green
Infrastructure asset impairment - £51.3m	The Council has recognised an impairment of £51.3m for infrastructure assets. The Council will need to include additional disclosures in relation to the asset impairment.	The Council has determined that, although there have been additions to infrastructure assets during the course of the HMMPFI contract, in light of the current information regarding evidence of investment in the highways network there is a need to impair the carrying value of these assets. The Council has calculated a range for the value of the impairment based on the information available and has accounted for a value in the middle of this range. We are satisfied that the estimate is reasonable.	yellow
Material IAS 19 entries	Disclosure of material entries relating to IAS 19 pension adjustments	The CIPFA Code requires expenditure to be allocated to service segments. The Council has made a judgment that material one-off changes to pension costs in year, mainly due to settlements and the impact of the McCloud judgement, should be shown separately on the face of the Comprehensive Income and Expenditure statement as a 'superannuation adjustment'. The Council has included additional disclosures within Note 10 to explain the nature of this entry and ensure that the judgement with regard to presentation has been made clear to the reader of the accounts. We are therefore satisfied that the Council's judgement does not result in a material misstatement to the accounts.	**N/A for judgements**
Pension guarantees £9.9m	Pension guarantees are recognised within provisions and contingent liabilities	The Council has assessed its pension guarantees under IAS 37, IFRS 4 and IFRS 9. The Council has made a judgement that its current pension guarantees relating to contribution rates should be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and have recognised a provision of £9.9m and a related contingent liability. We are satisfied that the valuation basis is reasonable, but in our view IAS 37 is not applicable to these contractual guarantees and would be more appropriately disclosed as an 'other liability' within the Balance Sheet. This is a presentation issue only and is immaterial.	**N/A for judgements**

Assessment

- (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (green) We consider management's process and key assumptions to be reasonable

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A letter of representation has been requested from the Council which is included as a separate document for Audit Committee. • Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates and judgements for: – Property, plant and equipment valuation – Property, plant and equipment infrastructure impairment – HMMPFI – going concern – Council Dwellings valuation – Equal pay measurement – Equal pay recognition – Academy Schools – Group boundaries – Completeness of expenditure
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests for bank and borrowing/investment balances. This permission was granted and the requests were sent to the bank. All responses were obtained with the exception of Schools. We received no bank letters for schools and therefore we performed alternative procedures to gain assurance over these balances.

Other communication requirements

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

	Issue	Commentary
6	**Disclosures and accounting policies**	• We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements but identified a number of errors, improvements and corrections to disclosures. We have summarised the significant disclosure amendments included in the final version of the accounts in Appendix C. • We also noted that there was a change in the Code for 18/19 to remove the requirement to disclose debtors and creditors by type of counterparty, but the Council has adopted the previous format based on a judgement that an analysis by customer is most appropriate for the nature of the Council's balances. This does not strictly meet the IAS 1 requirement to disclose based on size, nature and function. We are satisfied this would not make a material difference to the reader of the accounts.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to our audit opinion.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and • If we have applied any of our statutory powers or duties. We are satisfied that the Annual Governance Statement is not misleading or inconsistent with the other information of which we are aware from our audit. We made Statutory Recommendations to the Council July 2019 and March 2019 under section 24 of the Act.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and will be undertaken in September 2019.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of Birmingham City Council in the enhanced audit report.

Value for Money

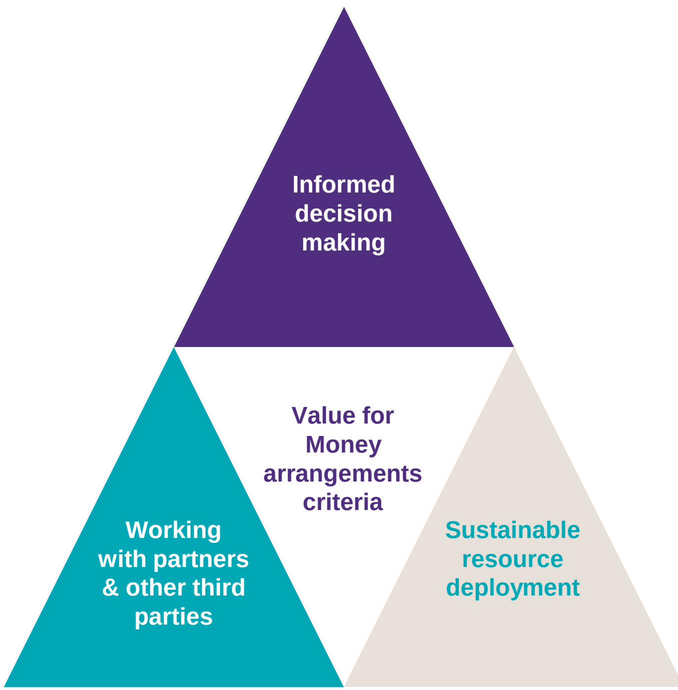
Background to our VfM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2019 and this was updated in May 2019. We identified seven significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. The updated position was communicated to the Audit Committee on 17 June 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VfM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. We have set out our preliminary findings on the risks we identified on pages 27 to 33.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
1 Finance		
The Council's Business Plan 2018+ identified continuing savings pressures, with a requirement of £117.0 million of savings to be delivered by the end of 2021/22 . The key risk is that the proposed 2018/19 savings schemes have not delivered the required recurrent savings, or are taking longer to implement than planned. In addition, the Council's financial plan for 2019/20 to 2022/23 needs to incorporate realistic and detailed savings plans. This needs to take account of key budget and service risks, whilst maintaining an adequate level of reserves to mitigate the impact of budget risks including the HMMPFI contract (see risk 3), Commonwealth Games (see risk 4), Equal Pay, Paradise Circus and Acivico Limited. We considered the Council's latest financial reports, including savings plans trackers, to establish how the Council is identifying, managing and monitoring these risks. This will involve considering the adequacy of reserves and their prudent use as well as the transparency of financial reporting.	BCC set its net revenue budget of £855.2m on 27 February 2018. Included within this budget was an assumed use of £30.5m of reserves to support budgetary pressures and a savings programme totalling £52.9m in 2018/19. Savings not fully achieved from previous years amounted to £15.7m totalling a planned savings target of £68.6m to be met in 2018/19. The GF revenue outturn position for 2018/19 showed an underspend of £5.9m comprising of a £14.6m underspend on base budget, £10.1m of savings not delivered in 18/19 and an accelerated achievement of part of the efficiency target of £5.7m. In 2018/19, £28.6m net use of total reserves was planned. However, at year end, there was an overall net contribution of £48.7m to reserves, resulting in an overall net increase to planned reserves of £77.3m. This increase related mainly to contract payments withheld in respect of a contract dispute which will be released in future years to undertake the work which has not yet been carried out. The month 3 Corporate Revenue Budget Monitoring report position up to the end of June 2019 identified the forecast outturn position to be an overspend of £17.440m. This indicates a slight improvement from the month 2 position and the Council is actively pursuing mitigations to resolve this overspend position. The 2019/20 approved savings target of £58.276m has 5.55% which is considered undeliverable and 11.58% which is at risk of non-delivery. Directorates have been requested to identify recovery plans to address these shortfalls and these proposals will be brought to Cabinet where necessary. The Council has also implemented a new reserves policy in the 'Financial Plan 2019-2023' for 2019/20 onwards which explicitly states that reserves can only be used on a one-off basis and that reserves are not to be used to avoid the necessity to achieve or the failure to deliver ongoing savings. All anticipated use of reserves should be understood and recognised as part of the budget setting process and agreed when Council approve the budget. In addition, any use of, or contribution to, reserves after the budget has been set should be approved by Cabinet or the section 151 officer.	Whilst we would emphasise that the Council did not achieve £10.1m of planned savings in 2018/19, we do recognise an achievement of £14.6m underspend on the 2018/19 base budget and a marked improvement in the budget management over the last year, coupled with enhanced transparency and control over the use of reserve balances. Of the 2019/20 savings target, 5.55% is undeliverable and 11.58% is at risk of non-delivery, which amounts to £9.983m. The Council is actively taking mitigating actions to identify recovery plans and we are satisfied the Council's remaining useable reserves (assuming 'worse case' scenario) could substantially cover the non-delivery of this savings total and budget pressures during 2019/20 and 2020/21. Savings proposals over the next four years are sufficiently detailed within the financial plan with the financial impact being split out between years. In 2019/20 £16.946m out of the £46.191m of savings are 'new' initiatives. On that basis, we have concluded that the risk has been sufficiently mitigated and that the Council has planned its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions as part of sustainable resource deployment.

Key findings (continued)

Significant risk	Findings	Conclusion
2 **Governance and the Waste Service** The key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action. We evaluated the governance arrangements in place for the Waste Service as well as considering the progress made by the Council in considering options for the delivery of the refuse collection service.	In July 2018 and March 2019 we issued statutory recommendations to the Council, including recommendations relating to Governance and Waste Service following successive waste strikes and concerns over governance arrangements. We noted in our March 2019 recommendations that 'whilst good progress has been made in a number of areas in delivering against the recommendations, progress in relation to the refuse collection service, in particular, has been hampered by a new wave of industrial action'. There has not been any further industrial action to date since the statutory recommendations were issued in March 2019. The current Memorandum of Understanding ends in November 2019 so there will be a need to make a decision on the future direction of the service by this point. In March 2019, Cabinet approved a proposal to commission a review of the Waste Service and the specification for the review. The review will consist of two phases; Phase 1 will consist of the service review and options appraisal with Phase 2 being implementation. The Council has appointed Woods to carry out this review, with the Phase 1 report expected in September 2019. The Council intend to wait for this report before making decisions about future options for the service.	We identified in our initial risk assessment that the key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action. The independent review is due to report in September 2019 and the Council intends to wait for this report before making decisions about the future operating model for the Waste service. We therefore do not yet have sufficient information to conclude that this risk has been sufficiently mitigated and concerns still exist over the effectiveness of industrial relations. We concluded that these matters are evidence of weakness in informed decision making: acting in the public interest through demonstrating and applying principles and values of sound governance.

Key findings (continued)

	Significant risk	Findings	Conclusion
3	**HMMPFI (Highways Maintenance and Management PFI) Contract** The Council entered into the HMMPFI contract to improve the city's highway infrastructure and provide operational services on the highway network over the full 25-year contract term. The Council's contract is with Amey Birmingham Highways Ltd (ABHL), a 'special purpose vehicle' company that employs Amey LG (a subsidiary of Amey plc, providing highway maintenance and management services) as its main subcontractor to provide the services. After various contract disputes and litigation cases the Court of Appeal judgement awarded in the Councils favour and the Supreme Court refused to grant leave to appeal which effectively ended the legal process. There was then an acceptance that the only way forward is for Amey LG to exit the contract. The key risk is the ongoing contractual disputes with Amey Birmingham Highways Limited as the Special Purpose Vehicle who sub-contract to Amey LG Limited (and other involved parties) in respect of the HMMPFI contract, which could have a significant impact on the Council's financial sustainability. We assessed the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.	Whilst the HMMPFI contract settlement between Amey LG and ABHL, which took place on 29 June 2019, carries significant financial risks for the Council, the Council has been proactive in achieving a settlement which represents the best possible outcome it could expect to receive and has mitigated its risks where possible. The settlement agreed by ABHL for £215m comprised: - £100m on settlement (paid on 1 July 2019) - £30m by September 2019 - £30m by December 2019 - £55m deferred (payable on sale of Amey or otherwise five annual instalments between 2020 and 2025). Both Amey UK plc and Amey plc filed their accounts later than the companies house deadline of 30 June 2019 and both audit reports contains a material uncertainty in relation to going concern (albeit with unqualified audit opinions). The auditors have drawn attention to the proposed plans of Ferrovial to sell the Group and the impact this will have on the ability to continue as a going concern. We are satisfied that any potential sale of the Group will require significant due diligence and the completion of the payments detailed within the settlement agreement is unlikely to be impacted. Whilst the risk remains that the lenders could withdraw their investment upon default, the Council has mitigated this risk as far as possible and has worked with the lenders to reduce covenant levels as well as reducing the likelihood of default scenarios.	Overall, we are satisfied that the Council's arrangement for managing the PFI contract dispute and for securing the settlement between Amey LG and ABHL were adequate. Whilst with any complex PFI contract settlement there will inevitably be financial and non financial risks, the Council has appropriately mitigated these risks where possible and has managed the process effectively and with transparency between Officers and Members. From a financial perspective the Council has built up healthy reserve balances of £180m as a contingency plan and is prepared to step in as the interim PFI contractor if necessary under 'step in' rights. As a result, we have concluded that the HMMPFI significant VfM risk is mitigated for 2018/19.

Key findings (continued)

	Significant risk	Findings	Conclusion
4	**Commonwealth Games** The key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We assessed the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and the associated funding arrangements, to establish how the Council is identifying, managing and monitoring this risk.	The Council has strengthened its governance arrangements for the delivery of the Commonwealth Games in the last 12 months and issued the 2022 Commonwealth Games Cross Partner Governance Framework in February 2019. The framework sets out the reporting lines for the various Boards, Groups and indicative cross partner working groups. These include the Commonwealth Games Strategic Board (CGSB) and the Commonwealth Games Chief Executives Group (CGCEG) which reports to the CGSB. The Security Board which reports to the CGSB and the Finance Group, the Budget Oversight Group and the Cross Partner Programme Group (CPPG) all report to the CGCEG. The 10 indicative cross partner working groups report to the CPPG or the CGCEG is the case of escalated issue resolution and setting of operational/tactical direction. Central Government announced that the cost of the Commonwealth Games would be £778m in June 2019. Central Government will fund around 75 per cent (£593.6m) and the Council is responsible for about 25 per cent (£184.4m). The Council is hoping to secure about £75m in funding from various games partners including West Midlands Combined Authority, Local Enterprise Partnerships (LEPs), Midlands Engine and some local universities. At this point in time, whilst a number of these options are at a fairly advanced stage, none of the planned partner funding has been formally agreed. The Council’s remaining share of £109.4m is split between £39m revenue funding, the majority of this (£37.8m) is due in 2022/23 and £70.4m capital funding of which only £14.7m is due in 2019/20.	We identified in our initial risk assessment that the key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We are satisfied that the Council has put in place appropriate governance arrangements to oversee the delivery of the Commonwealth Games. In addition, following Central Government’s confirmation that the total cost of the Commonwealth Games will be £778m with the Council’s local commitment totalling £184.4m which includes as yet unconfirmed local partner funding of c.£75m, we are satisfied that the Council is working closely with partners to secure the partner funding. As a result, we have concluded that the Commonwealth Games significant VfM risk is mitigated for 2018/19. We will continue to monitor the Council’s progress with securing planned partner funding for the Commonwealth Games as part of our 2019/20 VfM review.

Key findings (continued)

	Significant risk	Findings	Conclusion
5	**Services for Vulnerable Children** The Council's services for vulnerable children have been rated as 'inadequate' by Ofsted for over 10 years. An Ofsted monitoring visit in March 2018 highlighted that the Council had made some further improvements to the quality of social work practice since the last inspection, but that further work remained to be done to ensure that practice was consistently good and that the best outcomes for children are achieved on a timely and consistent basis. The key risk is that the service does not show demonstrable improvement during 2018/19 and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council. Ofsted have undertaken a further inspection of services for vulnerable children during 2018/19. We assessed the findings from Ofsted's most recent inspection, which were reported in January 2019, to establish how the Council is identifying, managing and monitoring this risk.	The Office for Standards in Education (Ofsted) completed an inspection of children's social care services at the Council between 3 December and 14 December 2018 and published its findings in a report on 17 January 2019. The Council's services for vulnerable children have been rated as 'inadequate' by Ofsted for over 10 years, but the report published in January 2019 concluded that the Council's children's social care services were 'requires improvement to be good'. The report stated that "The local authority, the shadow board, and since its inception in April 2018, Birmingham Children's Trust (BCT), have made good progress from a low base in improving the quality of services to children and families. They have made good use of monitoring visits since the 2016 inspection and many of the recommendations for improvement from that inspection have been acted on effectively. The delegation of statutory functions to BCT has enabled the re-vitalisation of both practice and working culture, and, as a result, progress has been made in improving the experiences and progress of children." Ofsted's report also highlighted the following areas which need to improve: • the quality, effectiveness and pace of partnership working with external agencies, including partner-led early help services; • trust and confidence between the courts and BCT; • effectiveness of the fostering service; • robust and timely focus on all permanence options for children; • alignment of the approach to contextual safeguarding; and • the impact of the virtual school in improving provision for children in care. In response to Ofsted's report, the Council has developed an action plan to address the areas in need of improvement which has been discussed and agreed with Ofsted.	We identified in our initial risk assessment that the key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. The findings of the Ofsted inspection undertaken in December 2018 and report in January 2019 meant that, as a result of the overall rating of 'requires improvement to be good', we are satisfied that the Council's arrangements for services for vulnerable children are appropriate. On that basis, we have concluded that the risk has been sufficiently mitigated and that the Council has appropriate arrangements in place relating to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.

Key findings (continued)

	Significant risk	Findings	Conclusion
6	**Management of Schools** Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of an improvement plan. The key risk is that the governance issues identified at schools will not be effectively addressed during 2018/19. As part of the assessment of schools' governance improvement the Council commissioned Birmingham Audit (internal audit) to carry out a programme of audits over a two-year period to 31 March 2019. The 2017/18 findings showed that there are a range of governance issues still to be addressed. We assessed the progress made by Internal Audit within their coverage of schools governance, to establish how the Council is identifying, managing and monitoring this risk.	Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of its improvement plan. Birmingham Education Partnership (BEP) is responsible for driving improvement in schools performance and does so using the following structure: • leadership and governance; • continuous improvement; • wellbeing and enrichment; • partnership and communication; and • compliance & OFSTED. Continuous improvement focuses on initiatives which are helping to improve performance in schools. These include the following: families of schools; strategic school improvement fund (SSIF); BEP peer review programme; and raising attainment of disadvantaged youngsters (RADY). As part of the assessment of schools governance improvement Birmingham Audit (internal audit) has been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are still a range of governance issues to address across the schools visited, 37 of the 50 schools audits (74%) undertaken by internal audit in 2017/18 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable) but none of the schools were assessed as 'level 4' assurance (controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met). However, 42 of the 50 schools reviewed this year were given an overall risk rating of low (84%).	We identified in our initial risk assessment that the key risk was that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed. Continuous improvement initiatives implemented by the BEP are driving performance improvement in schools. 84% of the schools reviewed by Birmingham Audit this year were given an overall risk rating of low. We recognise Birmingham schools continue to be in the national spotlight for a number of reasons and there are an increasing number of schools experiencing a deficit position for the first time. However, we do not consider these matters to be material to the Council's overall management of those schools. On that basis, we have concluded that the risk has been sufficiently mitigated and that the Council has appropriate arrangements in place to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.

Key findings (continued)

	Risk no longer applicable	Findings	Conclusion
7	**Improvement Panel** The Birmingham Independent Improvement Panel published its final report on 2 April 2019 subsequent to the Panel standing down from the end of March 2019.	Our review of the Panel's final report dated 2 April 2019 has confirmed that all the key risks that the Council is facing are covered by the other six significant VfM risks that we identified during this year's risk assessment process. The Panel's report reflects on the progress made by the Council since June 2018 and acknowledges that "The Council has worked hard over the last year and made considerable progress on many fronts." However, the report also highlights the scale of the challenges that the Council is facing. In particular, the report stated that: "The biggest risk is if a number of these key risks coincide. The Council's Financial Plan 19+ outlines both the extent of the financial risks facing the Council and its level of reserves. The financial risks include demographic pressures, capital project overruns, major contract disputes, potential changes to the business rates regime, the Commonwealth Games and Equal Pay. It is clear that if all the Council's risks that have detrimental financial implications were to come together the Council's financial resilience would be sorely tested." In its report the Panel acknowledges that "the Council is intending to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements." However, in it's recommendation to the Secretary of State the Panel said ".....in the light of the exceptional risks that the Council is facing and particularly its industrial relations context, we consider that type of challenge will be insufficient. We therefore recommend that the Secretary of State should put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel."	We have considered the findings of the Panel's final report and concluded that all the weaknesses in the Council's arrangements highlighted in it are covered by the other six significant VfM risks identified by our initial risk assessment for 2018/19. As a result, we no longer consider the Improvement Panel to be a significant risk. We will continue to monitor the Secretary of State's response to the Panel's final report and consider any actions arising as part of our 2019/20 VfM review.

Other statutory powers and duties

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

	Issue	Commentary
1	**Written recommendations**	We issued two sets of Statutory Recommendations under section 24 of the Local Audit and Accountability Act in July 2018 and March 2019. We have provided an update on progress against these recommendations within the VfM section of this report.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers, managers and network firms have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics (continued)

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of housing benefits claim, pooled housing capital receipts, teachers' pensions	48,744	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £48,744 in comparison to the total 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 all mitigate the perceived self-interest threat to an acceptable level.
Teachers' pensions	14,350	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,350 in comparison to the total 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 all mitigate the perceived self-interest threat to an acceptable level.
Certification of grant claims	42,750	Self-Interest (because this is a potentially recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £42,750 in comparison to the total 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 all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFOi	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total 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 all mitigate the perceived self-interest threat to an acceptable level.
CASS reporting – Finance Birmingham	14,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,000 in comparison to the total 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 all mitigate the perceived self-interest threat to an acceptable level.

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

We do not believe that the previous services detailed above will impact our independence as auditors.

Action plan

We have identified six recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	amber	• The Council identified that eight separate feeder files from two subsidiary systems relating to 2019/20 were posted in period 16 of the 2018/19 general ledger in error. • These entries were not reflected in the accounts and have been appropriately reversed out of the ledger, so there is no impact on the 2018/19 accounts.	• The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future **Management response** • TBC
2	amber	• 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. • We are satisfied this appears to be an isolated incident due to the unusual nature of the arrangement, so there is no material risk to the 2018/19 accounts.	• The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year **Management response** • TBC
3	amber	• We identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.	• Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved. **Management response** • TBC
4	red	• Our testing of the completeness of expenditure identified several items which were paid after 31 March 2019 but should have been accrued into 2018/19. The Council has performed extended analysis covering payments made during the period to 22 August 2019 which has identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued.	• 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. **Management response** • TBC

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
5	amber	• As part of the valuation of Council Dwellings we identified that the valuer applied a £5k adjustment rate for bedrooms to the majority of archetypes • On further review, the £5k was based on the approach taken in previous years and it was not clear that a review had been carried out to check if this value was still appropriate.	• The Council should ensure that assumptions used in the valuation of property, plant and equipment, including council dwellings, are reviewed for appropriateness each year and updated where appropriate. • In particular a review of the actual impact of the number of bedrooms on the valuation of council dwellings should be carried out in order to support the value of the adjustment. **Management response** • TBC
6	amber	• 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. • 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.	• Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only. **Management response** • TBC

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Birmingham City Council's 2017/18 financial statements, which resulted in 7 recommendations being reported in our 2017/18 Audit Findings report. We have set out an update on these recommendations below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Control weakness – payroll leavers** As part of our payroll testing we identified one individual who resigned from the Council in June 2017. However, their resignation form was not authorised until October 2017. Salary overpayments were identified in February 2018 and payments to the individual were suspended. This has been recognised as a debtor. Although we are satisfied that this error was identified by the Council, there is a risk that salary overpayments could occur if resignation documents are not authorised and actioned on a timely basis. We recommended that management consider the adequacy of controls in place to ensure authorisation of leaver documents does not lead to payments being made to individuals once they have ceased employment.	**Management response** To improve managerial compliance HR services will undertake the following: a) half yearly communication reminders to managers to remind them of their obligations where there are pay related requirements b) Monthly audit check of 'non-completed' actions which are items awaiting approval in a manager's worklist. c) Where there are repeat offenders the relevant Director will be notified and formal disciplinary action may be taken. Targeted training to be offered to those repeat offenders. d) Ensure People Solutions training in respect of 'Self-service' is completed as part of the induction. e) HR Services proactively chase managers where we have cause to believe an overpayment may arise. **Update from management** Managers have been informed of the processes to be followed and regular audit checks have been put in place to ensure non-compliance can be identified at the earliest possible stage. This should also pick up areas where potential overpayments may have occurred. The regular monitoring should identify any repeat offenders with appropriate action taken, including disciplinary action. At present no repeat offenders have been identified. A revised induction programme has been piloted. **Audit conclusion:** We are satisfied that management has taken adequate actions to address this control weakness and have not identified areas of weakness in relation to payroll leavers in 2018/19.

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2	✓	**Control issue – heritage asset valuations** From our work performed on heritage assets and through further discussions with management we consider that the value of heritage assets recognised on the balance sheet, whilst the accounting treatment is compliant with the Code based on insurance valuations, may not be a true reflection of the value of such assets. We recommended that management consider the appropriateness of these insurance valuations.	**Management response** The appropriateness of the current approach to Heritage Asset valuations will be kept under review. **Update from management** The current method of accounting for heritage assets is compliant with the CIPFA Code of Practice. Alternative accounting methodologies have been considered. However, placing a 'market' valuation on heritage assets may give a significant range in value for the assets which would make it difficult to identify a figure that would be materially correct. The cost of undertaking such a valuation would also not be economically viable. The insurance team have met with Museums Trust staff on a regular basis to assess insurance valuations for the collections to determine a suitable level of cover. The consideration of valuations has been discussed with external auditors. **Audit conclusion:** We acknowledge the responses from management and are satisfied that the Heritage Asset Valuations are compliant with the Code.
3	✓	**SAP – User access** We identified a higher than expected number of system accounts and service accounts with SAP_ALL access. SAP_ALL access provides access to all IT functions within the ledger system. We also noted one member of staff who was given this access in error. We can confirm no manual journals have been processed by this user in 2017/18. We recommended that management considers which users need SAP_ALL access and removes access to this function where it is not required.	**Management response** SAP BSC will carry out daily checks to monitor individuals who have access to SAP_ALL and any errant users will have their access revoked immediately. Capita ICTD will review all SAP_ALL access IDs and any that are out of use are removed. **Update from management** SAP_ALL is required on occasion to support BCC, Acivico and Birmingham Children's Trust in the implementation of SAP maintenance such as bi annual support packs. A process of approval by SAP BSC prior to use and immediate revocation once the work has finished is now in place in Capita ICTDS. In addition, SAP BSC carry out daily checks to ensure compliance to this process. **Audit conclusion:** We acknowledge the responses from management and our 2018/19 IT audit work has not identified any significant deficiencies relating to this issue.

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	Partial	**Multiple accounts assigned to a single user** We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighter ID purposes, it appears that some are unnecessary. We recommended that management considers which users need multiple accounts within SAP and removes access to those where this function where is it not required.	**Management response** SAP BSC will carry out a monthly check to ensure that all Firefighters are valid. Access for Firefighters will be revoked where they are no longer required. **Update from management** Multiple accounts are only commonplace within the Firefighter area of SAP and these accounts are only allocated to nominated staff. This is special access to enable support to be given to users in BCC, Acivico and Birmingham Children's Trust and the user accounts are split across the three entities. To ensure that this multiple access is only given to those nominated users, a monthly check is carried out to validate those users with this access. **Audit conclusion:** Our IT audit work in 2018/19 identified further recommendations relating to policies for Firefighter IDs. Our action plan points for 2018/19 are included in Appendix A.
5	See action plan number 4	**Under-accrual of waste invoices** Management made us aware of a number of waste invoices relating to services provided 2017 which had not been correctly recorded in the financial statement. Whilst the values involved are immaterial to our audit we have identified two weaknesses in the control environment. Firstly, one purchase order (PO) created in the system became 'stuck' and could not be authorised. This meant that invoices received could not be matched to the PO. Secondly, a number of payments were processed in relation to invoices which had not yet been recorded in the system. We recommend that the Council considers its controls in place to ensure other invoices are not paid before they are recognised within the ledger system.	**Management response** The requirement to comply with the policies and procedures in respect of accounts payable will be reinforced through management team meetings. At year-end any significant unmatched purchase orders will be reviewed to determine the appropriateness of any accruals **Update from management** The Financial Transactions Team have liaised with colleagues from Corporate Procurement Services to identify purchase orders raised retrospectively and to take the appropriate remedial action to curtail the practice. It is planned to publish this data on a regular basis on the Corporate Procurement Compliance Dashboard. After the year end, an extract of the data for the final quarter 18/19 will be provided with an analysis for each of the directorates. This will provide dashboard highlights plus details of all orders raised retrospectively for each directorate. By circulating this to relevant senior officers in each directorate, this will enable them to tackle any non-compliance in their own service area. The exercise will be repeated quarterly, to monitor compliance and provide directorates with an ongoing tool to manage retrospective ordering **Audit conclusion:** We have identified a further control weakness within expenditure accruals in 2018/19. Our work in this area is still in progress and we have raised a new action plan point for this area on page 36.

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	✓	**Control weakness - HRA revaluation** From completing our testing on HRA revaluation, we noted a £97.1m error within council dwellings which resulted an understatement of net book value. This occurred due to a formula error and has now been corrected. We recommend that a reconciliation control is put in place to ensure the prevention of similar errors in the future.	**Management response** The timeline for the provision of HRA asset valuations will be reviewed with a view to allowing more time for effective reconciliation and consistency checks to be applied to the calculation of revaluation adjustments, whilst still ensuring that the valuations are materially correct as at the year-end date. **Update from management** A reconciliation process has been put in place to ensure that data is recorded appropriately. Discussions have been held with valuers to ensure that the provision of valuations can be accelerated and provided at an appropriate time so that errors can be identified and cleared at the earliest opportunity. **Audit conclusion:** We are satisfied that management has taken adequate actions to address this control weakness and have not identified areas of weakness in relation to reconciliation of the council dwellings net book value to the valuer's report in 2018/19.
7	✓	**Control weakness – Business Rates Appeals** Classification of additional provisions made in year and amounts used in year are incorrect. However, we are satisfied that the year end provision value is correct. We recommended that the Council accurately calculates the amount of 'business rates appeals used in year' which will result in an accurate figure for 'additional provisions to be made in year'.	**Management response** The figures will be analysed at the year end to determine whether there are any significant movements to the provision, either additional amounts required or provision withdrawn. **Update** Following the recommendation that the Council accurately calculate out the amount of business rates appeals used during 2018/19 to ensure an accurate figure for additional provisions to be made in year. During the year, transactions relating to the appeals provision were monitored on a quarterly basis at a high level to determine the amount of provision used in year. Figures were further analysed at year end to determine whether there were any significant movements to the provision required. The final appeals provision has been accurately calculated and submitted within the final accounts including the appropriate government returns. In addition the classification of additional provisions made and used in year and those that are unused and reversed out/no longer required, have been calculated and separately identified within the CBAL1 return for Financial Control. As part of the budget setting process, we have also made an estimate of the level of appeals provision that will be required in 2019/20. **Audit conclusion:** The business rates appeals provision was not material to our audit in 2018/19. We are satisfied with managements response and update,

Assessment
✓ Action completed
X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	**Surplus Assets** Upon revaluation of surplus assets, the revaluation was applied to a new asset alongside the existing asset, resulting in a duplication and overstatement of £93.5m	0	Dr Revaluation Reserve 93,500 Cr Surplus Assets 93,500
2	**Valuation of schools** The primary school MEA factors were incorrectly applied to value secondary schools resulting in an understatement of PPE of £27.3m. This adjustment has no impact on the General Fund.	Cr Cost of Services 4,100	Dr Property, plant and equipment 27,300 Cr Revaluation Reserve 23,200
3	**DRC buildings valuation** Due to a change in accounting policy for the valuation of DRC assets with capital expenditure in year, this has resulted in a cumulative adjustment to the carrying value of these assets. This adjustment has no impact on the General Fund.	Cr Cost of Services 2,100	Dr Property, plant and equipment 20,900 Cr Revaluation Reserve 18,800
4	**HRA valuation – depreciation** We identified a £51m credit to the CIES relating to depreciation reversed through the CIES on revaluation of council dwellings. The correct accounting treatment is to calculate the revaluation movement based on the net movement with the resulting net gain/loss being taken to the CIES or revaluation reserve as appropriate. This adjustment has no impact on the General Fund.	Dr Cost of Services 51,000	Cr Revaluation Reserve 51,000

Audit adjustments (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
5	**Pension liability** Upon receipt of the new IAS 19 report taking into account the McCloud judgement, the relevant adjustments have been made. This information was not available to the Council at the time of the publication of the draft accounts. This adjustment has no impact on the General Fund.	Dr Past service cost 48,600	Cr Pension liability 48,600
6	**Cash and Short Term Investments** Incorrect classification between cash and short term investments has been identified from testing of schools cash. This is a net adjustment of £3.5m from cash to short term investments.	0	Dr Short Term Investments 3,500 Cr Cash 3,500
7	**Group Eliminations – Birmingham Children's Trust** The draft accounts included a £81.8m credit to the CIES relating to the gain on settlement on the transfer of net pension liabilities to Birmingham Children's Trust. In the group accounts, there is related debit entry but this had been transacted through Other Comprehensive Income. As these are intra-group transactions they should not have an impact on the group accounts. This adjustment has no impact on the General Fund.	Dr Group Cost of Services 81,800 Cr Group Other Comprehensive Income 81,800	0
	Overall impact on net cost of services/balance sheet	**93,400**	**93,400**
	Impact on usable reserves	**0**	**0**

Audit adjustments (continued)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. Note references below relate to the updated accounts as presented to audit committee in July 2019. These adjustments have been discussed with management but we have not received the final version of the financial statements to confirm that these adjustments have been processed.

Misclassification and disclosure changes	Detail	Adjusted?
Balance Sheet – Usable Reserves **Misclassification**	The Council has a net deficit balance of £8.7m on the non-schools Dedicated Schools Grant. This should be shown as part of unearmarked reserves rather than being a call on schools balances. The net deficit at 31 March 2018 was £11.5m. Appropriate amendments should also be made to the usable reserves note.	✓
Note 1 Accounting policies **Disclosure**	A number of changes have been made to the accounting policies to improve the compliance with the CIPFA Code and clarity to readers of the accounts.	✓
Note 9 – EFA by nature **Misclassification**	A number of misclassification errors were identified which resulted in incorrect values within the analysis which require correction. Additional changes are also required to this note following the audit adjustments made to the CIES.	✓
Note 10 – Material items of income and expense **Disclosure**	The disclosures within note 10 should be expanded to clearly disclose the Council's judgements around the disclosure of these items within the CIES, and the nature of the material items. Additionally some corrections are required to the figures to reflect the audit adjustment relating to McCloud.	✓
Note 15 – Revenue from Contracts with Service Recipients **Disclosure**	The draft accounts did not include any disclosures relating to IFRS 15. The Council has identified that there are material revenues which fall under IFRS 15 and therefore additional numeric and narrative disclosures are required to ensure compliance with the Code.	✓
Notes 19 – Usable reserves **Misclassification**	Transfers in and out were allocated incorrectly across unearmarked reserves, with no changes to the total movements.	✓
Note 21 & Note 22 **Disclosure**	The disclosures in the note require the following amendments: - correction of one error in the prior year figures; - correction of an error in the value disclosed for the net charge against the General Fund Balance for employer's contributions payable to scheme in year. This should reflect the proportion of the early payment made in 2017/18 which is chargeable to the General Fund in 2018/19; and - inclusion of the impact of the audit adjustments relating to McCloud.	✓
Note 23 – Property, plant and equipment **Disclosure**	The capital commitments disclosure was not in line with the requirements of the Code. The disclosure required amendment to ensure compliance with the Code.	✓

Audit adjustments (continued)

Misclassification and disclosure changes	Detail	Adjusted?
Note 23 Property, plant and equipment **Disclosure**	The analysis of assets by year of valuation requires amendment to correct a misclassification of £2.6m between 2014/15 and 2018/19, and to reflect the audit adjustments made to the valuation of PPE.	✓
Note 23 Property, plant and equipment **Disclosure**	The impairment of infrastructure was disclosed as a downwards revaluation in the draft accounts. This is incorrect and should be updated to disclose this as an impairment. Additional narrative disclosures should also be included relating to this material impairment.	✓
Note 32 – Provisions **Misclassification**	A misclassification between "additional provisions made in 2018/19" and "unused amounts reversed in 2018/19" was identified. This does not affect the net position and the provision remains the same. Additional provisions made in 2018/19 were understated by £22.8m and unused amounts reversed in 2018/19 understated by £22.8m.	✓
Note 37 – Cash Flow Statement – Financing Activities **Disclosure**	The accounts should be amended to include a reconciliation of liabilities arising from financing activities.	✓
Note 39 - Financial Instruments **Disclosure**	There have been a number of adjustments to the financial instruments note which resulted in a revised note being issued for audit. These adjustments include corrections to the categorisation of financial instruments to ensure compliance with IFRS 9, and corrections to the fair value disclosures.	✓
Note 45 - Legal fees senior officers **Disclosure**	An omission of legal fees reimbursed to a senior officer as part of compensation for loss of office was identified. The overall impact to this disclosure is an increase of £6k.	✓
Group CIES **Misclassification**	The superannuation adjustment within Group CIES should align with that reported within the single entity, excluding the impact of the settlements relating to Birmingham Children's Trust. This is a misclassification within the Group CIES.	✓
Note G14 – Cash Flow Statement – Operating Activities **Disclosure**	The value of interest received per Note G14 should be consistent with the value in Note G6.	✓
Narrative Report and Annual Governance Statement **Disclosure**	A number of changes should be made to the narrative report and Annual Governance Statement to ensure consistency with the financial statements and to improve clarity to the reader.	✓
Various **Disclosure**	In addition to the items identified above, a number of other minor changes are required to the presentation of, and disclosures within the accounts. This is to ensure consistency, enhance transparency and ensure compliance with the Code. None of these are deemed significant enough to bring to your attention individually.	✓

Audit adjustments (continued)

Impact of unadjusted misstatements

We have identified one unadjusted error in relation to provisions which we have documented within our private report.

We have identified a further unadjusted error relating to expenditure which is detailed below.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	**Completeness of expenditure (capital and revenue)** Following the errors identified in our sample testing, the Council reviewed payments made between 1 April 2019 and 22 August 2019, and identified £5.2m of capital expenditure and £4.6m of revenue expenditure which related to 2018/19 but was not appropriately accrued. Linked to this the council also identified £1.3m of income which related to some of these invoices and was also not accrued. Note that these figures include associated VAT so the actual impact on the Council's accounts is likely to be lower.	Cr Cost of Services 1,300 Dr Cost of Services 4,400	Cr Creditors 9,600 Dr Property, plant and equipment 5,200 Dr Debtors 1,300
	Overall impact on net cost of services/balance sheet	**3,100**	**3,100**
	Impact on usable reserves	**3,100**	**3,100**

Fees

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

Audit Fees

	Proposed fee £	Final fee £
Council Audit	241,909	241,909
Additional fees mainly relate to: • McCloud • additional regulatory requirements • Statutory Recommendations • additional VfM risks • HMMPFI and impairment • additional group audit procedures		46,700*
Total audit fees (excluding VAT)	**241,909**	**288,609**

Group audit fees

These fees have not been disclosed separately in the notes to the group accounts.

Fees for other subsidiaries (excluding VAT)	Fees £
Acivico Limited	40,000
Finance Birmingham Limited	7,400
NEC (Developments) plc	35,000
PETPS subsidiaries	22,500
Total	**104,900**

Reconciliation to financial statements

The fees reconcile to the financial statements as below

- Audit fees as above £0.24m
- fees for grant certification work for 18/19 £0.08m
- Total £0.32m
- (agrees to total of £0.3m per the financial statements)

* Additional fees have been proposed in August 2019 and we would not expect these to be included in the 2018/19 financial statements. These are subject to PSAA approval.

Fees (continued)

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Housing Benefits Grant Certification 17/18 (under PSAA contract)	21,594
• Housing Benefits agreed upon procedures 18/19	22,000
• Illegal Money Lending Team reasonable assurance engagement 17/18	3,500
• Education Skills Funding Agency agreed upon procedures 17/18 (undertaken September 2018)	4,650
• Education Skills Funding Agency agreed upon procedures 18/19 (undertaken July 2019)	5,000
• Homes England agreed upon procedures 17/18	2,600
• Teachers Pensions agreed upon procedures 17/18	7,100
• Teachers Pensions agreed upon procedures 18/19	7,250
• AMSCI reasonable assurance engagement (undertaken in November 2018)	12,000
• AMSCI reasonable assurance engagement (undertaken in August 2019)	15,000
• Polling of Capital Receipts (CFB06) agreed upon procedures 17/18	5,150
Non-audit services	
• CFOi insights 2018/19	10,000
• CASS reporting for Finance Birmingham 17/18 (undertaken June/July 2018)	7,000
• CASS reporting for Finance Birmingham 18/19 (undertaken April-July 2019)	7,000
Total	**129,844**