

BIRMINGHAM CITY COUNCIL**PUBLIC REPORT**

Report to:	AUDIT COMMITTEE
Report of:	Chief Executive (Acting)
Date of Decision:	24 September 2019
Subject:	STATEMENT OF ACCOUNTS 2018/19
Wards affected: All	
1 Purpose	
1.1	This report presents <ul style="list-style-type: none">• The 2018/19 Statement of Accounts;• Grant Thornton's Audit Findings Report, which summarises the significant outcomes, conclusions and recommendations on the financial statements from their work on external audit for 2018/19;• The Letter of Representation from the Chief Finance Officer
1.2	Members are asked to approve the Statement of Accounts for 2018/19 subject to external audit clearance of any outstanding issues.
2 Decisions recommended:	
2.1	Audit Committee is recommended to: <ul style="list-style-type: none">• Note the Audit Findings Report from Grant Thornton and accept the recommendations of that report;• Approve the Annual Governance Statement included in the Statement of Accounts for 2018/19;• Approve the Letter of Representation from the Chief Finance Officer;• Approve the Statement of Accounts for 2018/19 subject to external audit clearance of any outstanding issues.

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3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The production of the annual accounts is a statutory requirement for the Council.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based on International Financial Reporting Standards (IFRS).
- Section 151 of the Local Government Act 1972 requires the Chief Finance Officer (as responsible officer) to ensure the proper administration of the Council's financial affairs.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The issues raised in this report are largely of a technical financial nature.

4 Relevant background/chronology of key events:

- 4.1 The draft Statement of Accounts was signed by the Chief Finance Officer on 31 May 2019 and handed to the external auditors. Grant Thornton began their audit work on site on 28 May and have worked closely with Council officers since that time to ensure that the current document presents a true and fair view of the Council's financial position.
- 4.2 The Financial Reporting Council requires that external auditors satisfy themselves that, in signing off financial statements, they provide safe opinions and satisfy themselves that, where there are estimates within the statements, figures used are reliable. For 2018/19, this has meant an increased focus on the valuations of non-current assets and of the net pension liability within the financial statements resulting in an increase in the workload of external auditors and for the Council during the period of audit and is likely to lead to an increase in fees for the audit. This increase in audit activity has not just been within Birmingham but has been replicated across the sector.

- 4.3 An updated version of the financial statements was presented to this Committee at its meeting on 30 July 2019 alongside the draft AFR on the financial statements. However, at that time, whilst the external auditor had completed the substantial proportion of their audit of the financial statements, there remained some elements that were still to be completed, mainly work around the valuation of HRA assets and in respect of cut off testing of expenditure ensuring that expenditure is accounted for in the correct financial year.
- 4.4 The auditor was also unable to conclude work on the value for money (vfm) aspects of the audit as an assessment of the accounts of Amey Plc, and the view of its external auditors, needed to be undertaken in light of the agreement between the Council and Amey Plc in respect of the Highways Maintenance and Management PFI (HMMPFI) contract. At that time Amey Plc had not lodged its accounts with Companies House. Amey Plc has now lodged its accounts and the AFR now includes the external auditor's findings for vfm.
- 4.5 The Public Sector Audit Appointments (PSAA) agency has indicated to external auditors that they would not be considered to have missed audit deadlines if audit opinions are published by 30 September 2019.
- 4.6 During the audit, the external auditors have identified areas where changes to the financial statements have needed to be made in respect of entries within the accounts or around disclosures. Details of the adjustments are set out in section 5 of this report and are included in the AFR.
- 4.7 The AFR includes an action plan with a number of recommended actions which the Council needs to consider and address in the coming year. The AFR is attached as Appendix 1 and the recommendations are included in Appendix A of that report. The Council is required to respond formally to these recommendations and these are the subject of another report to this Committee today.
- 4.8 The Annual Governance Statement has been updated to reflect the changes in the Council's senior management structure.
- 4.9 A Letter of Representation is required to be sent to the external auditor by the Chief Finance Officer, in his role as Section 151 Officer. This advises the auditor of any material matters which have occurred since the draft Statement of Accounts was signed and which might impact on the accounts and the audit. The letter is attached as Appendix 2.

5 Audit Adjustments

- 5.1 There have been a number of adjustments and disclosure changes to the accounts and the material adjustments are set out below.
- a) Non-current asset valuations
Given the additional focus on non-current asset valuations this year, there

have been a number of items identified, which have been adjusted for in the accounts. The major changes relate to:

- A valuation for one property being linked to another property when entering into the asset database
- Incorrect space requirements applied to those secondary schools valued
- The impact of additions to school assets which did not increase pupil numbers within the school, whilst immaterial on a yearly basis, was cumulatively a significant value and this was adjusted for

b) Net pension liability adjustment

The government was refused leave to appeal a decision regarding age discrimination in respect of judges and firefighter pension schemes in respect of the transition arrangements in moving from a final salary to a career average scheme. This decision impacts on the Local Government Pension Scheme. The decision was announced after the draft accounts were produced and, given that the impact was likely to be material, the Council requested an updated actuary report. This has been amended for.

5.2 There were also a number of minor adjustments that have been amended in the final statement of accounts.

5.3 The adjustments above had no impact on the Council's level of usable reserves.

5.4 In the work undertaken on cut-off testing, the external auditor has identified items of expenditure that were not accounted for in the correct financial year. These errors have arisen where normal payment processes have not been followed or where information has not been entered on a timely basis. The auditor included a specific recommendation in respect of the cut off testing. The accounts have not been adjusted for this error as the figures are not material to the Council's financial position.

Signature:

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Clive Heaphy, Chief Executive (Acting)

Attachments:

- Appendix 1: Audit Findings Report – Public
- Appendix 2: Audit Findings Report - Private
- Appendix 3: Letter of Representation to the External Auditor
- Appendix 4: Annual Statement of Accounts