

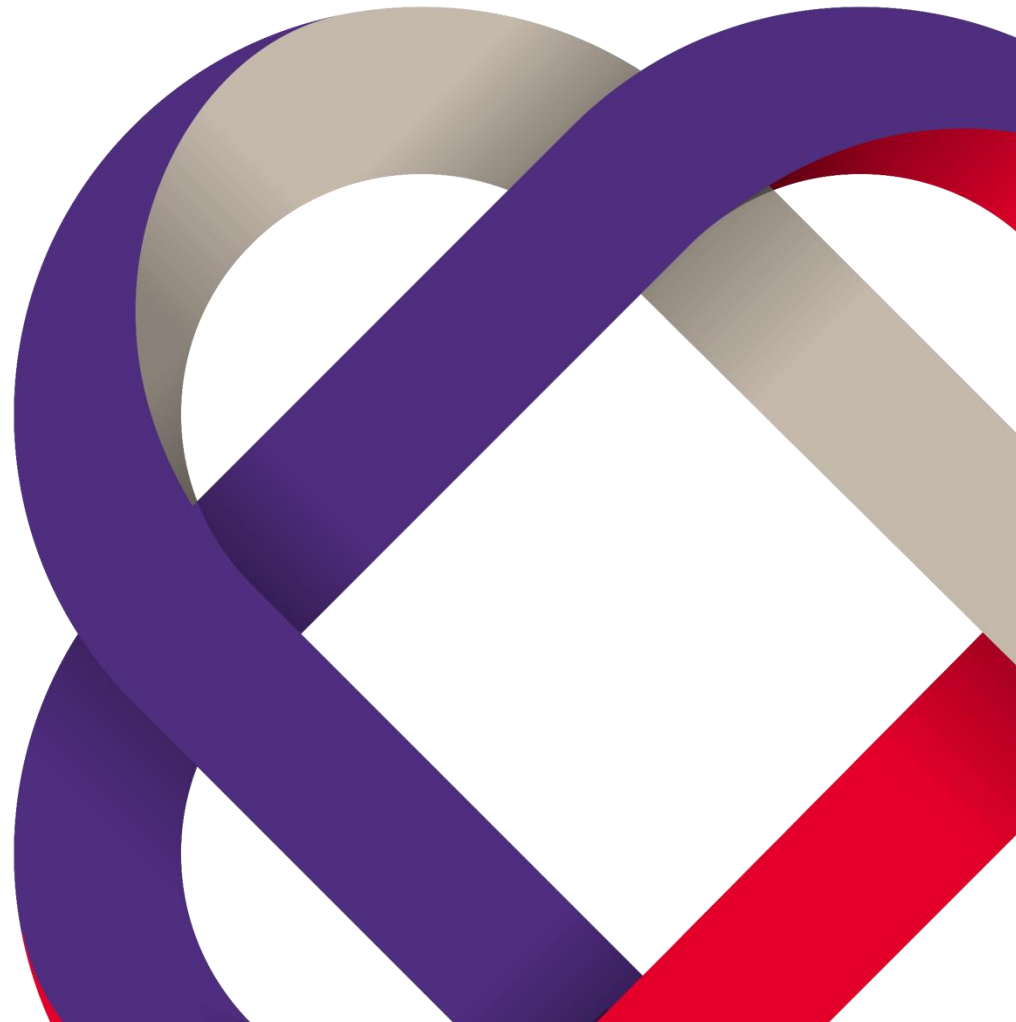
Informing the audit risk assessment for Birmingham City Council

Year ended 31 March 2019

Phil Jones
Engagement Lead
T +44 (0) 121 232 5437
E phl.w.jones@uk.gt.com

Tess Barker-Phillips
Audit Manager
T +44 (0) 121 232 5235
E tess.s.barker-phillips@uk.gt.com

Manthos Bournazos
In-charge accountant
T +44 (0) 121 232 5424
E manthos.bournazos@uk.gt.com



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Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern
- accounting estimates
- related parties.

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud, including the nature, extent and frequency of such assessments?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas, and a dedicated Counter Fraud Team. The Counter Fraud Team undertake reactive and proactive investigations across the organisation, this includes high risk areas such as Social Housing and Council Tax. The risk of material misstatement of the accounts due to undetected fraud is low.</p>

Fraud risk assessment (continued)

Question	Management response
<p>What processes does the Council have in place to identify and respond to risks of fraud, including any identified specific risks of fraud and risks of fraud likely to exist?</p>	<p>The Council has an Anti-Fraud and Corruption Policy and Fraud Response Plan which set out the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit. As well as participating in the bi-annual National Fraud Initiative (NFI), regular data matching exercises are undertaken through Internal Audit's Data Warehouse facility and proactive data analytical routines are run on a periodic basis to highlight exceptions in data that may be an indication of fraud or error.</p> <p>Internal Audit participate in the annual survey of fraud in local government undertaken by CIPFA and review the results to identify potentially new fraud risks.</p> <p>Internal Audit staff participate in various forums to exchange ideas around fraud related issues, as well as working more widely in co-operation with law enforcement agencies to exchange information for the purpose of preventing and detecting crime. Fraud Spotlight, a bulletin covering fraud related topics, is published bi-annually on the Intranet, and similar material is distributed termly to schools through The Auditor bulletin. In addition ad-hoc fraud alerts are issued to schools through the Schools Noticeboard whenever a particular concern arises.</p> <p>The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter, which has been revised this year. Bespoke fraud awareness training for staff can be provided on specific fraud related issues. Procedures are in place for reporting fraud; which includes an on-line referral form, a fraud hotline and a whistle blowing process.</p> <p>Financial Regulations stipulate that all cases of fraud should be reported to Internal Audit. All fraud referrals are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition Internal Audit will refer cases to the Police where there is firm evidence of criminality and will also work with Legal Services if seeking civil remedy.</p>

Fraud risk assessment (continued)

Question	Management response
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Housing Benefit remains a high risk area however responsibility for investigating fraud in this area transferred to the Department for Work & Pensions (DWP) as part of the Government's introduction of the Single Fraud Investigation Service (SFIS) on 1st February 2015. The Council no longer has any authority or legal power to investigate in this area. Nevertheless, Internal Audit are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly. The Benefits Service is responsible for re-assessing benefit claims following a notification from Internal Audit, and determining any overpayments. The Council has taken part in NFI data matching exercises to identify fraudulent claims for Housing Benefit.</p> <p>Social housing fraud has been identified as a high risk area and significant counter-fraud resources have been committed to identify illegal sub-lets, non-residency of properties and fraudulent applications for social housing in respect of its own stock and that of Registered Provider partners. Internal Audit have worked with Housing to secure the gateway to obtaining a tenancy through increased use of the Data Warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach has been pursued with applications made under the Right to Buy Scheme.</p> <p>Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions. Counter fraud resources have been committed to identify and investigate fraud and error in this area. The Council has taken part in NFI data matching exercises to identify fraudulent claims for SPD's and Council Tax Support. The Revenues Division has also recently sought to use Credit Reference Agency data and the Data Warehouse to identify potential fraud and error on an ongoing basis.</p> <p>Social Care fraud is also considered to be a high risk area. Internal Audit continue to work closely with the Adults Social Care Directorate to combat Direct Payment fraud.</p>

Fraud risk assessment (continued)

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Birmingham Audit as part of delivering the internal audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. Data analytical techniques are used to proactively check compliance and identify exceptions.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets) ?</p>	<p>The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts, these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process ?</p>	<p>The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts, these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>
<p>How does the Council communicate with those charged with governance regarding their processes for identifying and responding to risks of fraud in the entity?</p>	<p>Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud which includes updates on other initiatives such as NFI.</p>

Fraud risk assessment (continued)

Question	Management response
<p>How does the Council communicate with staff regarding their views on ethical behaviour and business practices?</p>	<p>The employee code of conduct forms part of the contract of employment. The Code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow. There are specific guidelines for dealing with employee fraud relating to benefits, social housing, Council Tax and Blue Badges.</p> <p>Business practice are laid out in the Policies Standards Procedures and Guidelines (PSPG) database. This database is currently being reviewed and updated.</p>
<p>How do you encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported ?</p>	<p>There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. There is a Whistleblowing Policy in place, which includes schools, and a dedicated Whistleblowing Reporting Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on the Employee Portal, includes an email address and telephone numbers for fraud reporting. An on-line referral form is in place on the Employee Portal and Birmingham.gov.uk. In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud ?</p>	<p>Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings. Reports provided through NFI are being used to help identify undeclared relationships.</p>

Fraud risk assessment (continued)

Question	Management response
<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within specific departments since 1 April 2018 ?</p>	<p>From 1st April 2018 to 28th February 2019, 103 referrals of potential fraud and error had been made to Internal Audit's Corporate Fraud Team. Each referral is risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of the Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition, 119 cases have been raised in relation to Application Fraud (Social Housing and Council Tax). In the year to date 62 social housing properties have been recovered for re-letting, 201 housing applications cancelled and 2 Right to Buy applications stopped. In addition, Council Tax changes of £542,869 have been identified.</p>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018 ? If so, how has the Audit Committee responded to these ?</p>	<p>There is a Whistleblowing Policy in place, which includes schools, and dedicated Whistleblowing Reporting Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services.</p> <p>From 1st April 2018 to 28th February 2019, 38 referrals have been received and recorded as a whistleblowing disclosure.</p> <p>All recorded disclosures are reviewed and monitored by the Monitoring Officer, Chief Executive and Deputy Leader.</p> <p>The number of whistleblowing disclosures are also considered and reported within the Annual Governance Statement.</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations ?</p>	<p>The Monitoring officer is responsible for ensuring the Council is compliant with laws and regulations. The Council's constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> Report on contraventions or likely contraventions of any enactment or rule of law. Report on any maladministration or injustice where Ombudsman has carried out an investigation. Receive copies of whistleblowing allegations of misconduct. Investigate and report any misconduct in compliance with Regulations. Advices on vices issues, maladministration, financial impropriety, probity and policy framework and budge issues to all members. <p>The Monitoring Officer has access to all Council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific legal issues, the Monitoring Officer would get I involved at an early stage including vetting reports for legal issues.</p> <p>Senior lawyers in Legal Services undertake corporate governance review of reports to Cabinet and Cabinet Members.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>This dealt with in the Annual Governance Statement.</p> <p>All reports to Committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for Decision reports.</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with ?</p>	<p>Through the Annual Governance Statement process that is approved separately by Audit Committee and forms part of the annual financial statements.</p> <p>Regular updates of the Council's Risk Register are considered by CMT and Audit Committee.</p> <p>The financial and legal implications are set out in committee reports.</p> <p>Reassurance to the Resources Overview and Scrutiny Committee would be through reports to the committee where they were appropriate.</p>

Impact of laws and regulations (continued)

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2018, or earlier with an on-going impact on the Council's 2018/19 financial statements ?	The Council has been found to be in default of process and/or legal requirement through various legal challenges through Judicial Review, Health and Safety claims, Information Commissioner and Ombudsman findings and both civil and criminal proceedings brought against the Council.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims ?	<p>Claims involving the Highest Risk to the Council are regularly monitored by the Legal and Governance Management team and reported to the Council Corporate Management Team.</p> <p>Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities where there is uncertainty about any payment.</p>
Are there any actual or potential litigation or claims that would affect the financial statements ?	Any potential significant litigation is disclosed through either provisions or contingent liabilities within the financial statements. Legal services maintain details of claims against the Council.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance ?	As above – Ombudsman, Information Commissioner and Health & Safety Executive.

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements ?	The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), paragraph 2.1.2.6 requires that the Council's financial statements are prepared on the going concern basis because it is assumed that the functions of the Council will continue in operational existence for the foreseeable future.
Has a preliminary assessment of the entity's ability to continue as a going concern been performed ?	The Council Plan 2019-2023 is a robust basis for identifying the Council as a going concern in 2019/20. Please see in particular chapter 3 section 22 (p.46 to p.50), which includes a detailed discussion and tabular summary of the financial risks which management are aware of. This analysis informs the level of reserves and balances included in the Plan (p.50 to p.56), and supports the S151 officer's assessment of the robustness of budget estimates and the level of reserves and balances on p.82.
What is the basis for the intended use of the going concern assumption, and are management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern ?	As described above, in addition to the requirement under the Code to prepare financial statements on the going concern basis, the Council Plan 2019-2023 is a robust basis for identifying the Council as a going concern in 2019/20. In addition to the risk assessment contained in chapter 3, the Council's Risk Register review process monitors ongoing risks and issues which management are aware of. Government announcements regarding future grant levels are monitored closely and projections are updated regularly. The Council is part of the West Midlands 100% Business Rates Pilot , which will enable it to keep business rates growth in the City.
Are arrangements in place to report the going concern assessment to the Audit Committee ?	Yes. Regular monitoring reports, including statements on revenue, capital and treasury management positions, are considered at Cabinet with call-in by scrutiny where determined. Audit Committee receives reports on matters that may have a significant impact on the financial position of the Council.
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year ?	The Council Plan 2019-2023 includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members. The Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern.

Going concern considerations (continued)

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern ?	The Council Plan 2019-2023+ explicitly takes into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium-and long-term plans.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made ? (Examples include adverse comments raised by Internal Audit regarding financial performance or significant weaknesses in systems of financial control).	<p>Audit Committee has received, and continues to receive, reports on significant issues facing the Council. During the last year, Audit Committee has received updates on matters relating to the Highways PFI contract, Paradise Circus redevelopment and Equal Pay</p> <p>Regular update reports are provided by Birmingham Audit to Audit Committee.</p>
Does a review of available financial information identify any adverse financial indicators including negative cash flow ? If so, what action is being taken to improve financial performance ?	<p>The Council's arrangements for its management of cashflows are set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. Ultimately, negative cashflow is controlled by the balanced budget requirement and the prudential limit and indicators.</p> <p>The Council's arrangements for budget monitoring, including the implementation of the savings programme, ensure that close attention is paid to the need to deliver services within budgets available. This includes frequent reporting to Cabinet.</p> <p>Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.</p>
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives ? If not, what action is being taken to obtain those skills ?	The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, assisted by additional resources in the programme management office, contingency planning, a non-delivery contingency budget and the maintenance of reserve balances to mitigate any residual risk.

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Related Parties (continued)

Question	Management response
What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?	<p>Members and Senior Officers are required to complete an annual register of interests. Members and officers are also required to declare any interests relating to matters to be discussed in each meeting.</p> <p>The Council nominates representatives to organisations which are approved via Cabinet and other committees. Reports on representation on organisations boards are reported to Cabinet Committee – Group Company Governance.</p> <p>The Council also has relationships with organisations where it is a shareholder or member of that organisation. These relationships are reported to CC-GCG on a regular basis.</p>
Who are the entity's related parties, including changes from prior period?	<p>The Council has a number of subsidiary and associate companies and joint operations which are consolidated into its group accounts. The entities involved are:</p> <p>Acivico Limited, Birmingham Children's Trust CIC, Birmingham City Propco Limited, Innovation Birmingham Limited, InReach (Birmingham) Limited, National Exhibition Centre (Developments) Plc, PETPS (Birmingham) Limited, PETPS (Birmingham) Pension Funding Scottish Limited Partnership, Birmingham Airport Holdings Limited (BAH), Paradise Circus General Partner Limited,</p> <p>Birmingham Children's Trust became operational from 1 April 2018.</p> <p>The Council operates pooled budget arrangements with two Clinical Commissioning Groups, NHS Birmingham & Solihull CCG and NHS Sandwell & West Birmingham CCG</p> <p>(continued overleaf)</p>

Related Parties (continued)

Question	Management response
Who are the entity's related parties, including changes from prior period? (continued)	<p>The Council has a relationship with a number of where it has 100% share ownership or where it is sole member of a company limited by guarantee, which are not consolidated into the Council's group accounts. Details of the organisations where transactions with the Council exceeded £100k are:</p> <p>Birmingham Museums Trust, Birmingham Venture Capital Limited, Birmingham Wheels Ltd, Finance Birmingham Limited, Performances (Birmingham) Limited.</p> <p>The Council is involved with a number of companies where it is a minority shareholder and the level of activity is not material to the Council's group accounts. Details of the organisations where transactions with the Council exceeded £100k are:</p> <p>Auctus, Birmingham LEP Company (also known as Birmingham Lend Lease Partnership), Birmingham Schools SPC Phase 1A Limited, Birmingham Schools SPC Phase 1B Limited, Birmingham Wholesale Market Company Limited, Veolia Environmental Services Birmingham Ltd, West Midlands Growth Company Limited,</p> <p>The Council has representation on the board of a number of organisations but has no shareholding or entitlement to returns from the organisation. Details of the organisations where transactions with the Council exceeded £100k are:</p> <p>Acocks Green Primary School Academy, Alston Primary School Academy, Ark Tindal Primary School Academy, Bartley Green School Academy, Birmingham Citizens Advice Bureau Service Ltd, Birmingham Repertory Theatre, Birmingham Royal Ballet, Bournville College, Bournville School, City of Birmingham Symphony Orchestra, Cockshut Hill Technology College Academy, Heathfield Primary School Academy, Joseph Chamberlain College, King Edward VI Academy Trust, Leigh Primary School Academy, Midlands Arts Centre, Millennium Point Property Ltd, Prince Albert Primary School Academy, St Basils, St. Paul's Community Development Trust, St. Paul's Community Development Trust, Shenley School Academy, Tile Cross Academy School, Warren Farm Primary School Academy, Warwickshire County Cricket Club, West Midlands Combined Authority, Wilson Stuart School Academy, Witton Lodge Community Association Ltd, Wyndcliffe Primary School</p>

Related Parties (continued)

Question	Management response
Who are the entity's related parties, including changes from prior period? (continued)	<p>The Council has representation on Business Improvement District boards. Details of the organisations that had transactions with the Council in excess of £100k are:</p> <p>Acocks Green Village BID, Retail Birmingham Limited, Colmore Business District BID, Southside BID, Sutton Coldfield Town Centre BID, Westside Partnership Limited,</p> <p>The Council, whilst not having any shareholding, has significant influence over a number of bodies due to their funding arrangements. Details of the organisations that had transactions with the Council in excess of £100k are:</p> <p>Bloomsbury Estate Management Board, Manor Close Residents' Management Organisation, Four Towers TMO, Roman Way Estate Community Interest Company</p> <p>The Council has had transactions of over £100k with the following organisations which fall within the definition of related parties, but where the influence is indirect and limited.</p> <p>Anthony Collins Solicitors, Norton Hall Children and Family Centre, Birmingham and Solihull Mental Health Trust, Sandwell and West Birmingham Hospitals NHST, Birmingham and Solihull Women's Aid, Shencare Community Transport Trust, Birmingham Community Healthcare Trust, Sir Josiah Mason Trust, Birmingham YMCA, South and City College (Birmingham) Limited, Thompsons Solicitors, Focus Birmingham, University Hospital Birmingham Foundation Trust, Highclare Independent School, Yardley Great Trust, Leigh Trust</p>
What is the nature of the relationships with these related parties?	As detailed above
Has the Council entered into any transactions with these related parties during the period, if so, what are the type on purpose of these transactions?	As detailed above

Accounting estimates

Issue

Matters in relation to accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

Accounting estimates (continued)

Question	Management response
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable ?	Yes. Experts in particular fields are used to provide estimates and there is a reasonableness check on the advice given. Also our external auditors have reviewed the basis of estimates in previous years and confirmed that the council's financial statements are materially correct.
How are transactions, events, and conditions identified that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements ?	The Council has dedicated finance business partners supporting services with appropriate levels of financial support. There are also central teams dealing with activity such as capital expenditure, treasury management and commercial activities. Each finance team has detailed knowledge of their area and appropriate financial skills to recognise where recognition and disclosure is appropriate.
Are there any changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates ?	The implementation of IFRS 9 has meant a thorough review of the implications of holding financial assets has been undertaken to ensure that the Council continues to comply with accounting standards.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Regular monitoring reports are considered by Cabinet and are subject to call in by scrutiny for further review. Reports on specific areas are considered by Audit Committee, for example, on equal pay, highways PFI and Paradise redevelopment.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property Valuations	<p>A five year rolling revaluation programme supplemented by annual reviews of significant changes in market values, is used for all property assets apart from HRA assets.</p> <p>HRA assets are subject to a full revaluation every five years in line with guidance from the Ministry of Health, Communities and Local Government. In intervening years a desktop review of the valuation is carried out.</p> <p>All assets are valued at current value.</p>	The valuer is issued with instructions as to the basis of valuation in line with the Cipfa Code of Practice and RICS guidance. The resultant valuations are reviewed by a qualified RICS surveyor and then by Finance as to their reasonableness compared with previous years.	Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful Lives of PPE	<p>The estimated Useful Economic Life (UEL) of an asset is considered as part of the five year rolling valuation process undertaken by the RICS qualified surveyor. Their judgement is included in the report provided to support the carrying values within the financial statements.</p> <p>Each year, an internal asset review is undertaken by services to determine whether there have been any changes to assets, part of which would focus on the UEL of the asset. Where there are significant changes, this information is provided to the valuer.</p>	By its nature the UEL is an estimate but the use of an expert will provide comfort that on average assets will be able to meet service requirements over their UEL	UEL is considered by the RICS qualified valuer as part of the annual report.	The Council uses standard parameters for the UEL of assets and if the valuer were to identify a UEL outside the usual range then additional information would be sought to determine the reason for the variance.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p>Depreciation is charged on a straight line basis over the remaining UEL of an asset. Depreciation is not charged in the year of the asset purchase/creation but charged in full in the year of disposal.</p> <p>The level of annual depreciation will also be affected by any assessment of a residual value of an asset at the end of its UEL. This can only be an estimate based on the professional knowledge of the value.</p> <p>Depreciation is the outcome from two estimates, the valuation and the UEL.</p>	Given that the constituent parts of the determination of depreciation are estimates then depreciation will be an estimate.	A qualified RICS valuer has identified the most appropriate valuation and UEL of an asset and these have been used to determine depreciation.	Depreciation can be determined on a number of differing bases. The Council feels that the charge to revenue for depreciation is best met by charging on a straight line basis over the UEL.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Property – impairment is considered through two methods. The first is as part of the cyclical valuation undertaken by qualified valuers and the second is through an asset review undertaken by services in respect of their own properties. Once an asset has been identified as being impaired, the qualified valuers then undertake an assessment of the impact of that impairment.	The resultant impairments are reviewed by a qualified RICS surveyor.	Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions	No
	Financial Assets – impairment is considered through two methods. From the investments made by the Council as non-treasury investments advice is sought experts within Finance Birmingham who have appropriate experience whilst with Treasury investments advice is sought from Arlingclose.	Any resultant impairments are reviewed and challenged where the Council has relevant information	Yes.	As knowledge can only ever be partial in considering the financial position of external organisations, the Council has to rely on guidance from its external advisors with a check back for reasonableness on the basis of local knowledge.	Yes, partially. The implementation of IFRS 9 is making the Council look at expected credit losses earlier than previously which relied on evidence of impairment rather than knowledge that a proportion of investments are likely to fail when the investment is made.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for doubtful debts	An analysis has been made of the repayment profile of invoices raised in a single financial year, broken down by the type of service being provided. This has then been used to inform the judgement as to the level of bad debt provision required taking into account the nature of the debtors and whether there is any security over the debt.	The estimates determined from the exercise have been compared to the amount of debt written off in prior years to ensure that estimates remained reasonable. Assumptions have been challenged on the robustness of provisions proposed.	A range of relevant Council staff have been consulted where appropriate. Training has been provided on the new methodologies required under IFRS 9		

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	As above in the consideration of impairment in investments, advice is sought from external partners on the value of financial instruments.	As above in the consideration of impairment of investments	Yes	As above in the consideration of impairment of investments	As above in the consideration of impairment of investments
Creditor accruals	Robust forecasting is undertaken of the financial outturn for the Council. Creditor accruals are based on the best knowledge available when forecasting outturn. Where there is more up to date information at the year end, then accruals are amended to reflect actual activity delivered in the financial year.	As well as linking back to the robust forecasting undertaken, checks are made to ensure that there are no significant items that should also be accrued for that were not known at the time of the forecast.	Forecasting is undertaken with services who have detailed knowledge on the level of activity committed in the financial year.	As with all estimates, knowledge can never be perfect but checks are undertaken on the anticipated level of activity compared to trends in spend and by checking activity undertaken in the new year to ensure that any significant items have not been excluded.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Actuarial gains/losses	The estimates of actuarial movements in the pension fund liabilities are undertaken by a qualified actuary. The actuary uses estimates based on their professional knowledge within accepted parameters used by the sector.	The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable.	A qualified actuary from Barnett Waddingham LLP, actuary to the West Midlands Pension Fund, is used to provide the information.	The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	<p>The total budget for the City's Central Directorates is split across</p> <ul style="list-style-type: none"> • Democratic Core • Non-distributed costs • Services to the Public • Other non-CSC • Central Support Charges <p>The element identified as Central Support Charges is recharged to Directorates apportioned on one of a number of appropriate data sets, including headcount, gross expenditure, etc.</p>	The estimates are produced from a download of the draft budget and as such reflect the controls and assumptions within BCC's financial planning process at that point.	CIPFA/CCAB qualified accountant	The current basis of allocation has been in place for the last few years. It is proposed that this will be reviewed in 2019/20.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability of senior officers	Senior officers, where they are members of a pension scheme, are members of either the Local Government Pension Scheme, the Teachers Pension Scheme or the NHS Pension Scheme. The latter two schemes are treated as defined contribution schemes. The assessment of any liabilities for senior officers would form part of the assessment of the overall scheme liabilities.	The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable.	A qualified actuary from Barnett Waddingham LLP, actuary to the West Midlands Pension Fund, is used to provide the information.	The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis.	No

