

# The Audit Findings for Birmingham City Council

**Year ended 31 March 2021**

13 October 2021





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# Contents

## Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

## Page

- 3
- 5
- 22
- 25

- 28
- 29
- 33
- 38

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents have been discussed with management and will be discussed with the Audit Committee.

Jon Roberts  
For Grant Thornton UK LLP  
13 October 2021

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# 1. 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 2021 for those charged with governance.

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## Financial Statements

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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 Annual Governance Statement (AGS), and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been completed remotely, having commenced in June. Our findings are summarised on pages 5 to 21. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's outturn position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is ongoing, but at the time of writing this report 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 following outstanding matters set out on page 6 of this report.

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 unqualified, but will highlight the uncertainties that the Council has disclosed within the contingent liabilities note in relation to the volume and timing of any future equal pay claims and the determination of any settlements.

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# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to the Audit Committee on 30 September 2021. We expect to issue our Auditor's Annual Report by 30 November 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a number of risks of significant weaknesses in the following areas:

- The financial impact of the Commonwealth Games
- The contractual arrangements relating to the highways PFI scheme
- Waste service continuity and industrial relations
- The potential impact of a lack of stable leadership due to significant level of turnover of key staff and officers
- The governance arrangements in relation to required improvements in SEND services
- IT Audit findings and planned changes to the Council's general ledger

Two of these risks (relating to the Council's SEND service and our IT Audit) have been identified since the issue of our Audit Plan. Our work is underway and an update is set out in the value for money arrangements section of this report.

Management have fully engaged with the new approach, and have been proactive in providing the information and evidence that we require in a timely and structured manner. We aim to present our Auditor's Annual Report to the November Audit Committee, following the conclusion of our work.

## 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 have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report in November 2021, and our work on the Council's Whole of Government Accounts (WGA) return which will likely take place early in 2022.

## Significant Matters

As set out on page 13 of this report, Grant Thornton's IT Audit team have completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit. A number of deficiencies and significant deficiencies were identified through this review, which have had to be factored into our substantive work and have led to extended testing being undertaken in a number of areas.

We did not encounter any other significant difficulties or identify any other significant matters arising during our audit.

## 2. Financial Statements

### 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 and will be discussed with the Audit Committee.

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 group's business and is risk based, and in particular included:

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

We have had to alter our Audit Plan, as communicated to you on 30 March 2021, to reflect significant risks in relation to elements of the Council's income and expenditure as a result of the impact of the COVID-19 pandemic. Further detail on these changes is set out on page 12. We have also had to extend our substantive testing in a number of areas, as a result of the issues noted through our review of IT General Controls, as set out on page 13.

## 2. Financial Statements

### Conclusion

Our audit of your financial statements is ongoing, and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 19 October 2021. These outstanding items include:

- Completion of testing of a sample of journal transactions deemed to be unusual as a result of our risk-based analysis;
- Receipt and review of supporting information for the key inputs into a sample of the Council's property valuations;
- Completion of our testing of samples of the Council's income and expenditure transactions, including transactions that occurred after the end of the financial year, to ensure that these have been appropriately recorded;
- Completion of our testing of samples of the Council's debtor and creditor balances;
- Completion of our testing of samples of the Council's capital transactions during the year;
- Alternative procedures to gain assurances over the Council's bank and investment balances where confirmations have not been received;
- Review and reperformance of the Council's consolidation process, and review of work of the component auditor, Crowe UK LLP;
- Review of disclosure-only elements of the financial statements;
- Final quality checks and senior personnel reviews of the audit work performed;
- Receipt of management representation letter; and
- Review of the final set of financial statements.

We will provide a verbal update on progress made on the outstanding items of work to the Audit Committee at its meeting on 19 October 2021 and will circulate a final version of this report to members once our audit work has been completed.

We anticipate being able to rely on delegated authority to the Audit Committee Chair and the Council's s151 Officer for the approval of the financial statements prior to signing our opinion.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted in our audit plan presented to the Audit Committee in March 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, including remote access of financial systems, and verifying the completeness and accuracy of information produced and provided remotely by the entity.

The finance team have been extremely helpful in enabling us to gain the assurance that we require for our auditor's opinion on the financial statements.



## 2. Financial Statements



### 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.

Our materiality levels for the audit remain the same as reported in our audit plan on 30 March 2021.

We considered revising our materiality levels on receipt of the draft financial statements, but determined that this would not be appropriate.

We detail in the table to the right our determination of materiality for Birmingham City Council

	Group Amount	Council Amount
Materiality for the financial statements	£34,310k	£34,300k
Performance materiality	£22,300k	£22,295k
Trivial matters	£1,700k	£1,700k



## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Management override of controls</b></p> <p><b>ISA (UK) 240</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Council (and Group)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>identified unusual journals recorded during the year and after the accounts production stage for testing back to supporting evidence for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>We have not identified any changes to the Council's accounting policies, or to the estimation processes for material estimates in the financial statements.</p> <p>As set out on page 13 of this report, Grant Thornton's IT Audit team has completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit. A number of deficiencies and significant deficiencies were identified through this review, in relation to security management and user access levels, which have been factored into our evaluation of the design effectiveness of management's controls over journals. As a result of these findings, additional focussed work is being completed at the time of drafting this report which is specifically considering those transactions that are impacted by these findings. We have raised recommendations in respect of several of these weaknesses in previous years, which have been followed up in Appendix B.</p> <p>Our detailed testing of individual journal transactions identified as being unusual through our risk-based analysis is ongoing at the time of drafting this report. We have not identified any instances of management override to date. In addition, no instances of management override have been identified through the work performed on the Council's material estimates and judgements. Additional detail on the work performed on the most significant estimates and judgements is included on the following pages of this report.</p>



## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on a rolling, five-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's (and group's) financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement, and a key audit matter.</p>	<p>Council (and Group)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;</li> <li>engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; and</li> <li>challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding.</li> </ul> <p>At the time of drafting this report, our detailed work on a sample of revaluations is ongoing. This testing will include the following:</p> <ul style="list-style-type: none"> <li>testing that revaluations made during the year have been input correctly into the Council's asset register;</li> <li>testing the key inputs into revaluations back to supporting information to ensure that they have been performed based on accurate information; and</li> <li>evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.</li> </ul> <p>We have identified a formula error in the calculations supporting the Property, Plant and Equipment disclosure note, meaning that elements of the additions and reclassifications amounts are misstated between the two columns. This error is £13.9m, but is limited to the detail of the note with no impact on the balance sheet, and no impact on any of the totals within the disclosure note. The Council have corrected this in the revised financial statements.</p> <p>In recent years management have amended the annual valuation process, moving the valuation date closer to the year end. As a result of this, the 192 assets revalued this year as part of the rolling programme were last valued at 1 April 2015 (as part of the 2015/16 financial year). This means that the Council has not complied with the Code, which requires that assets are valued within a 5-year period. This is only a compliance point, and has no impact on the asset valuations incorporated into the 2020/21 financial statements. This change in approach should improve the accuracy of the year-end financial position.</p> <p>The Council's property portfolio is large and complex, and a significant level of work is required to gain assurance over the reasonableness of the valuations included in the balance sheet. This work is ongoing at the time of drafting this report, and management and the Council's valuer are engaging with the audit process.</p>

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of the pension fund net liability</b></p> <p>The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation.</p> <p>With regard to these assumptions we have therefore identified valuation of the Authority'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.</p>	<p>Council (and Group)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities; and</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial reports from the actuary.</li> <li>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; and</li> <li>obtained assurances from the auditor of the West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the WMPF and the fund assets valuation in the WMPF financial statements.</li> </ul> <p>Our work on the liability is nearing completion at the time of writing this report.</p> <p>We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total of £90m. The Council's share of this total estimated £90m error is approximately £24.7m.</p> <p>This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility.</p> <p>An adjustment has been made for quantifiable elements of this issue in the Council's financial statements, increasing the Council's share of the Pension Fund's assets by £20.9m and recognising the impact on the Council's Pension Reserve. There is no impact on the Council's General Fund balance. See Appendix C for further detail.</p> <p>We have identified that a small element of the Council's liability has been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. We do not believe this will be a material issue, but have yet to confirm the impact of this error.</p> <p>We have not identified any other issues in respect of the valuation of the pension fund net liability.</p>

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation and completeness of the equal pay liability</b></p> <p>Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.</p> <p>We identified the valuation and completeness of the equal pay provision as a risk requiring special audit consideration, and a key audit matter.</p>	<p>Council (and Group)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to estimate the equal pay provision;</li> <li>• reviewed the assumptions on which the estimate was based;</li> <li>• assessed the accuracy and completeness of the information used as the basis of estimating the liability, and reperformed the calculation of the estimate, on a sample basis where appropriate;</li> <li>• confirmed that the estimate has been determined and recognised in accordance with accounting standards;</li> <li>• determined how management have assessed the estimation uncertainty; and</li> <li>• considered events or conditions that could have changed the basis of estimation, and the potential impact of any transactions or events after 31 March.</li> </ul> <p>During our work we have identified that the draft financial statements disclosed the net of the movement of the provision reversed unused of £16.2m and the additional provision made of £17.7m, rather than identifying these movements separately. This has been amended and has no impact on the provision value as at 31 March 2021.</p> <p>We also identified that the Council had removed the contingent liability in relation to equal pay from the draft financial statements. Following audit challenge this contingent liability has been reinstated in Note 32 of the draft financial statements. As in previous years, we will refer to this uncertainty in our audit report.</p> <p>We have not identified any other issues at the time of writing this report.</p>

## 2. Financial Statements - Significant risks

The following significant audit risks were not communicated in the Audit Plan.

Risks identified subsequent to our Plan	Risk relates to	Commentary
<p><b>Presumed risk of fraud in revenue recognition</b></p> <p><b>ISA (UK) 240</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Council (and Group)	<p>At the time of our audit planning, having considered the risk factors set out in ISA 240 and the nature of the revenue streams of Birmingham City Council, we determined that it was likely that the presumed risk of material misstatement due to the improper recognition of revenue could be rebutted.</p> <p>The COVID-19 pandemic had a significant impact on the Council's financial performance, and although we remain satisfied that it is appropriate to rebut this presumed risk for the revenue of the Council during the year, we do not deem it appropriate to rebut this presumed risk for manually accrued income at the end of the financial year.</p> <p>We have identified the completeness of accrued income transactions, and the completeness of the related debtor balances, as a significant risk. As a result of this, we extended our samples for the testing of transactions and receipts after the end of the financial year to reflect the heightened risk in this area.</p> <p>During the audit it was identified that the Council had recognised both income and expenditure in relation to a highly material COVID-19 related grant which management now believe should have been excluded from the financial statements. For more detail on this, see Appendix C.</p> <p>Our audit work is ongoing at the time of drafting this report, but work to date has not identified any other issues in respect of the Council's revenue recognition.</p>
<p><b>Risk of fraud in to expenditure recognition</b></p> <p><b>PAF Practice Note 10</b></p> <p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p>	Council (and Group)	<p>Having considered the nature of the expenditure streams of Birmingham City Council, we did not consider this to be a significant risk for the Council at the time of our planning, however on the same basis as that set out above for revenue, we have identified the occurrence and accuracy of accrued expenditure transactions, and the existence and accuracy of the related creditor balances, as a significant risk.</p> <p>We attempted to extend our samples for the testing of year-end manual creditor balances to reflect the heightened risk in this area. We were unable to reliably separate manually accrued expenditure from other creditor balances, and so we extended our sample testing across all accrued expenditure.</p> <p>The adjustment relating to the COVID-19 related grant referred to above will also lead to a reduction in the Council's expenditure in-year.</p> <p>At the time of writing this update we have not identified any issues or errors relating to non-occurrence of expenditure, but our testing of a sample of payments made after the end of the financial year has identified one item of spend that related to the 2020/21 year but had not been accrued. This testing is ongoing. The error identified is clearly trivial on its own, but we will consider the potential wider impact if this error were representative of the wider population once this work is complete.</p> <p>Our audit work is ongoing at the time of drafting this report, but work to date has not identified any other issues in respect of the Council's expenditure recognition.</p>

## 2. Financial Statements - New issues

This section provides commentary on new issues which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>IT control deficiencies</b></p> <p>To support the audit of the Council's financial statements for year ended 31 March 2021, Grant Thornton's IT Audit team have completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit.</p> <p>The findings from this work inform our risk assessment and planning procedures, and determine whether, and how much, reliance can be placed on the operation of the Council's systems for the purposes of our substantive testing.</p>	<p>The work to support the audit of the 2020/21 financial year was undertaken in June and July 2021. A number of deficiencies and significant deficiencies have been identified through this review, relating to security management and individuals' access levels. One of these findings was new this year, as a result of additional checks performed, but the majority have been reported in previous years.</p> <p>These findings are currently being discussed with management, who will put in place an action plan to remediate the issues raised. The detailed IT Audit findings and management responses will be circulated to members and formally presented to the November Audit Committee.</p> <p>At the time of writing this report, no issues have been identified in the Council's financial statements as a result of inappropriate system access.</p>	<p>As a result of these findings, we have extended the substantive testing being undertaken as part of our substantive work in a number of areas.</p> <p>No issues have been identified through our audit that are a result of these access issues, however it is our view that remediation is required.</p> <p><b>Management response</b></p> <p>The Council's approach to prior recommendations around access controls has been to put in place a series of detective controls – monitoring and reviewing for inappropriate system use.</p> <p>The more thorough work done by the IT audit team this year has highlighted a number of specific access issues.</p> <p>We note that no actual instances of inappropriate use of that access has been identified, but accept that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, we have already started work to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months. We will report to Audit Committee on our progress.</p>



## 2. Financial Statements - Key findings arising from the group audit

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 approach	Findings	Conclusion
Birmingham City Council	Yes	Full scope audit performed by Grant Thornton UK LLP	See detail of findings set out in section 2 of this report.	
Birmingham Children's Trust CIC	No	Specific procedures will be completed on these balances by the component auditor, Crowe UK LLP	We did not identify any significant risks of misstatement of the group financial statements, however we have requested that Crowe complete specific procedures on the Trust's expenditure and net pension liability as these balances are material to the group's financial statements.	The component auditor has completed work on expenditure with no issues identified that are non-trivial to the group. At the time of writing this report, the audit of the Trust is ongoing, and we understand that there may be an adjustment to the Trust's net pension liability. The scale of this adjustment is not yet known, but it will not be material to the group.
National Exhibition Centre (Developments) Plc	No	Specific procedures will be completed on these balances by Grant Thornton UK LLP	We did not identify any significant risks of misstatement of the group financial statements, however the company's loan stock is material to the group and the audit team have agreed this balance to supporting evidence.	No issues noted through work performed.
Other entities	No	Analytical review performed by Grant Thornton UK LLP	None	No issues noted through work performed.

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Land and Building valuations</b> <b>Draft: £2,506.9m</b> <b>Final: TBC</b>	<p>Other land and buildings comprises £1,393.0m of specialised assets such as schools and libraries, which are required to be 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 and surplus assets (£1,113.9m) are not specialised in nature and are required to be valued at existing use value (EUV) (or Fair Value for surplus assets) at year end.</p> <p>The Council has engaged its internal valuer to complete the valuation of properties on a five yearly cyclical basis. 42% of total assets (by value) were revalued during 2020/21, as at 11 December 2020.</p> <p>Management have considered the year-end value of non-valued properties, and the potential change in value of those assets that were valued prior to 31 March 2021. Management's assessment identified no material change to the properties' values.</p> <p>The total year end valuation of other land and buildings and surplus assets in the draft financial statements was £2,506.9m, a net increase of £24.6m from 2019/20 (£2,482.3m).</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Deepened our risk assessment procedures including understanding processes and controls around the identification and determination of estimates. This included understanding methods, assumptions and data used.</li> <li>• Confirmed that there have been no changes to the valuation method this year.</li> <li>• Considered the source of the inherent risk associated with the accounting estimate.</li> <li>• Analysed the method, data and assumptions used by management to derive the accounting estimate, and validated the sources of the information used by management. In particular, we are in the process of: <ul style="list-style-type: none"> <li>• reperforming a sample of valuation calculations; and</li> <li>• testing the inputs into a sample of valuations to source documentation.</li> </ul> </li> <li>• Confirmed that we have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council and considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of accounting estimates.</li> <li>• Considered whether there are any indications of management bias in determining the estimate and evaluated whether there is any evidence that contradicts management's assessment.</li> <li>• Confirmed that disclosure of the estimate in the financial statements is considered adequate.</li> </ul> <p>We have yet to complete our detailed testing of a sample of revaluations, and are still reviewing management's assessment of the potential movements in asset values prior to 31 March 2021.</p>	<p>(TBC)</p> <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

### Assessment

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

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Council dwelling valuations</b> <b>Draft: £2,568.0m</b> <b>Final: TBC</b>	<p>The Council owns 59,710 dwellings and is required to revalue these properties in accordance with DCLG's 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.</p> <p>The Council has engaged their internal valuer to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council dwellings was £2,568.0m, a net increase of £109.9m from 2019/20 (£2,458.1m).</p> <p>From 2019/20, the Council has instructed its valuer to provide valuations at the beginning of each calendar year, and has confirmed that these were materially accurate as at 31 March 2021.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Deepened our risk assessment procedures including understanding processes and controls around the identification and determination of estimates. This included understanding methods, assumptions and data used.</li> <li>• Considered the source of the inherent risk associated with the accounting estimate.</li> <li>• Analysed the method, data and assumptions used by management to derive the accounting estimate.</li> <li>• Confirmed that we have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council, and considered whether there are any indications of management bias in determining the estimate and evaluated whether there is any evidence that contradicts management's assessment.</li> <li>• Considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of accounting estimates. In particular we have: <ul style="list-style-type: none"> <li>• challenged the basis of valuation for some of the Council's properties which were valued on a discounted cash flows basis rather than using market values; and</li> <li>• challenged the selection of beacon properties used for archetypes where these have changed since the prior year.</li> </ul> </li> <li>• Confirmed that disclosure of the estimate in the financial statements is considered adequate.</li> </ul>	<p>(TBC)</p> <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

### Assessment

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

## 2. Financial Statements - key judgements and estimates

### Significant judgement or estimate

### Summary of management's approach

### Audit Comments

### Assessment

#### Net Pension Liability

Draft: £3,206.1m

Final: £3,206.1m

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

The Council's net pension liability at 31 March 2021 is £3,206.1m (PY £2,591.3m) comprising obligations under the West Midlands Pension Fund Local Government pension scheme.

The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Birmingham City Council Pension Fund valuation:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% - 2.05%	●
Pension increase rate	2.80%	2.80% - 2.85%	●
Salary growth	3.80%	3.80% - 3.85%	●
Life expectancy Males currently aged 45 / 65	45: 23.4 65: 21.6	21.9 – 24.4 20.5 – 23.1	●
Life expectancy Females currently aged 45 / 65	45: 25.8 65: 23.9	24.8 – 26.4 23.3 – 25.0	●

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.

As set out on page 10 of this report, the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The Council's share of the estimated error is approximately £24.7m, however this is not indicative of an issue in management's estimation process. An adjustment has been made for this issue in the Council's financial statements, as set out in Appendix C.

We have identified that an element of the Council's liability has been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. We are satisfied that this won't be a material issue, but have yet to confirm the impact of this error.

We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Grants Income Recognition and Presentation</b>	<p>The government has provided a range of new financial support packages to the Council and all local authorities throughout the COVID-19 pandemic, including funding to support the cost of services, and amounts to be paid out to support local businesses.</p> <p>The Council has needed to consider the nature and terms of each of the various COVID-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year.</p> <p>The main considerations made by management in forming their assessment were:</p> <ul style="list-style-type: none"> <li>Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet</li> <li>Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance</li> <li>Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES</li> </ul>	<p>Our work on the Council's grant income is not complete at the time of drafting this report, but to date, only one issue has been noted. In the draft financial statements the Council had recognised both income and expenditure in relation to COVID-19 related grants which management now believe should have been excluded from the financial statements. We are satisfied that this revised assessment is reasonable. For more detail on this adjustment, see Appendix C.</p> <p>In particular:</p> <ul style="list-style-type: none"> <li>Following the adjustment identified, we are satisfied that management have effectively evaluated whether the Council is acting as the principal or agent for each relevant scheme, which has determined whether any income is recognised.</li> <li>We have evaluated the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this treatment was appropriate.</li> <li>We have considered management's assessment, for grants received, of whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate.</li> <li>Management's disclosure of the Council's accounting treatment for grant income is sufficient.</li> </ul>	<p>Following the adjustment identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

### Assessment

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



## 2. Financial Statements - other communication requirements

We set out here 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
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 incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and investment counterparties. This permission was granted and requests were sent. The majority of these requests were returned with positive confirmation. Where responses were not received we will undertake alternative procedures to obtain the assurance that we require over these balances.
Accounting practices	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.
Audit evidence and explanations / significant difficulties	All information and explanations requested from management were provided.

## 2. Financial Statements - other communication requirements



### 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).

Issue	Commentary
Going concern	<p data-bbox="837 464 2063 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="837 619 2063 641">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="837 657 2063 927" style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p data-bbox="837 943 2063 1082">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="837 1098 1939 1236" style="list-style-type: none"> <li>• the nature of the Council and the environment in which it operates</li> <li>• the Council's financial reporting framework</li> <li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p data-bbox="837 1252 2018 1276">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="837 1292 2018 1385" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the 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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet completed and the timelines for this work have not yet been confirmed by the National Audit Office. We anticipate completing this work in early 2022.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Birmingham City Council in the audit report, due to the following work being incomplete:</p> <ul style="list-style-type: none"> <li>• work on the Council's arrangements to secure value for money; and</li> <li>• required procedures on the Council's WGA return.</li> </ul>



# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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

# 3. Value for Money arrangements

We have not yet completed all of our VFM work and are not expecting to be in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to the September Audit Committee. We are intending to issue our Auditor's Annual Report by 30 November 2021. This is in advance of the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements (which is likely to be January 2022 in Birmingham's case).

At the time of writing this report, we have substantively completed our overall review of the Council's arrangements covering the NAO's specified reporting criteria of 'Improving Economy, Efficiency and Effectiveness', 'Financial Sustainability', and 'Governance'. We are currently working through our final queries in these areas.

As part of our work, we have considered whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. At the time of writing this report we have identified the risks set out in the table below. Two of these risks (relating to the Council's SEND service and our IT Audit) have been identified since the issue of our Audit Plan. Our work on these risks is underway and an update is set out below.

Risk of significant weakness	Work performed to date
<p><b>Financial impact of the Commonwealth Games</b></p> <p>In previous years we have identified that the cost of hosting the Commonwealth Games (the Games) could impact on the Council's future financial sustainability.</p> <p>Over the course of the 2019/20 financial year, substantial cost pressures arose that exceeded the level of contingency included within the Full Business Case for the Games, resulting in the requirement for a revised case to be reported to Cabinet only nine months later, in March 2020.</p> <p>Our VFM conclusion was qualified in this regard in 2019/20. Since then, COVID-19 has had a significant impact on the planning and preparation for the Games.</p>	<p>As part of our work in the 2019/20 year, we recommended that the Council take action to address the shortfall of £25m in partner funding for the capital expenditure budget in the second half of 2021/22 and 2022/23 in order to mitigate the financial impact of the Games.</p> <p>Partner contributions have not be forthcoming as originally expected, mainly due to the COVID-19 pandemic, the Council has made provision for this within the capital programme from capital contingency.</p> <p>We are also considering the latest governance arrangements for the delivery of the XXII Commonwealth Games, and will look to establish how the Council identified, managed and monitored this risk during the year, and how this has been formally reported within the Council's governance structure.</p>
<p><b>Contractual arrangements relating to the highways PFI scheme</b></p> <p>The Council and Birmingham Highways Ltd are currently in the process of procuring a long-term subcontractor for the Council's highways PFI scheme. During this process there is the potential for significant change to the agreement between the Council and BHL, and for the level of service delivered by the future contract to be reduced.</p> <p>Our VFM conclusion was qualified in this regard in 2019/20.</p>	<p>As part of our work in the 2019/20 year, we recommended that the Council work towards completing negotiations as a matter of priority, in order to ensure that a new, permanent solution can be put in place as soon as reasonably possible to achieve best value for money.</p> <p>We also recommended that the Council ensured that proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.</p> <p>Grant Thornton professionals with specific highways and other PFI expertise have held discussions with Council staff regarding the latest position, including discussions with the Department for Transport. For the purposes of this work we are focussing on arrangements in place during the 2020/21 financial year, although we are aware that there have been significant developments since the end of the financial year. We will consider these developments insofar as they provide evidence relating to the in-year arrangements.</p> <p>We are also considering the progress made in the process of retendering the contract, and will look to establish both how the Council identified, managed and monitored this risk during the year, and how this has been formally reported within the Council's governance structure.</p> <p>We hope to finalise our findings in this area in the coming weeks and will provide a verbal update to the Audit Committee.</p>



# 3. Value for Money arrangements

## Risk of significant weakness

### Waste service continuity and industrial relations

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

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

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

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

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

### Governance arrangements in relation to required improvements in SEND services

In May 2021, Ofsted and the CQC revisited the local area of Birmingham to decide whether sufficient progress has been made in addressing the areas of significant weakness detailed in the written statement of action issued in September 2018.

The formal findings from this revisit identified that the area has not made sufficient progress in addressing 12 of the 13 significant weaknesses identified at the initial inspection.

### IT Audit findings and planned changes to the Council's general ledger

As discussed on page 9 of this report, our IT Audit team have identified a number of deficiencies through their review of the Council's ITGC's, which have led to extended testing being undertaken as part of our substantive work.

In addition, we are aware that there have been significant delays to the implementation programme for the Council's new general ledger system. Significant revisions to the planned delivery timelines and budgets were approved by Cabinet in March 2021.

## Work performed to date

As part of our work in the 2019/20 year, we recommended that the Council continued to work closely with Wood to ensure that Phase 2 of the independent review was completed as soon as practically possible, and ensured that it maintained effective and consistent relations with its trade union partners regardless of any future changes to the waste service delivery model.

We will review the governance arrangements in place for the Waste Service, and consider the progress made by the Council to review other options for the delivery of the refuse collection service. We are aware that the Council are waiting for the results of Government's Waste to Resources consultation before progressing the review further, and will consider this as part of our work.

We have requested information and supporting evidence relating to the Council's arrangements for ensuring continuity in operations during and following changes in key staff and officers, as well as any relevant handover arrangements for specific changes in staff during the 2020/21 financial year.

This information has been provided. Through review of this information, and inquiry of relevant individuals, we will gain an understanding of the processes undertaken by the Council to ensure that any instability resulting from the changes in the leadership team during the financial year were minimised.

We will gain an understanding of the governance arrangements that the Council put in place to ensure that the required improvements were being made, and how progress against the Written Statement of Actions was measured and monitored.

We will also look to establish both how the Council identified, managed and monitored this risk during the year, and how this has been formally reported within the Council's governance structure.

Our IT Audit work has identified issues with user access permissions for a number of years, which the Council have not addressed.

Grant Thornton staff from our IT Audit specialist team have held discussions with Council staff regarding the latest position and progress made on the planned implementation of the new general ledger system.

These discussions have identified a number of recommendations, including some for action in September 2021 to ensure that further risks to the delivery of the planned 'go live' date of April 2022 are minimised. We will include more detail on these findings in our AAR.

## 4. 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. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

A member of the Grant Thornton team who has assisted with our value for money work in respect of the Council's Highways PFI scheme previously worked for another accounting firm that acted as financial advisors to Birmingham City Council on their Highways PFI. We have considered whether this might represent a threat to our independence for the purposes of the VFM work, and are satisfied that any self-review threat is mitigated by the facts that: 10 years have passed since the individual's involvement in Birmingham's PFI arrangements; and the individual's work will be reviewed by more senior members of their team, and by the audit team. We have consulted with our Ethics team and they are satisfied that we have put in place adequate safeguards.

We have received confirmation that Crowe UK LLP is independent.

We have received confirmation that PwC (as our actuarial expert) and Wilks Head & Eve LLP (as our valuation expert) are independent.

No breaches of regulations have been identified.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 4. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to October 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of 2019/20 Teachers' Pension return (October – November 2020)	7,500	For these three audit-related services, we consider that the following perceived threats may apply: <ul style="list-style-type: none"> <li>• Self-Interest (because these are recurring fees)</li> <li>• Self Review</li> <li>• Management</li> </ul>	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2019/20 Housing Benefits Subsidy claim (August 2020 – January 2021)	27,500		
Certification of 2019/20 Housing capital receipts grant (January – April 2021)	5,500		Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.  The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
Certification of 2020/21 Housing Benefits Subsidy claim (June 2021 – January 2022)	22,500		
AMSCI reasonable assurance engagements (April 2021)	15,000	Self-Interest (because this is a recurring fee)	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £15,000 in comparison to the confirmed scale fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Homes England Compliance Checklist (August – September 2021)	6,000	Self-Interest (because this is a recurring fee)	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the confirmed scale fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
There were no non-audit related services			

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

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified 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 2021/22 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
<b>Low</b>	<p>Our testing of management's calculation of the equal pay provision identified a number of errors resulting from manual inputs into the calculation.</p> <p>We have gained sufficient assurance that these errors did not lead to a material misstatement of the estimate.</p>	<p>We recommend that the Council looks to reduce its reliance on manual processes, or where this is not possible ensure that sufficient reviews are in place to reduce the risk of errors.</p> <p><b>Management response</b></p> <p>Management recognise that a less manual process would be an improvement, and consideration will be given to this, however the impact will be immaterial as demonstrated by the audit testing. Management will review opportunities for automation in proportion to the greater accuracy achievable.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Follow up of prior year recommendations

## Assessment

- ✓ Action completed
- WIP** Action in progress
- X** Not yet addressed

We identified the following issues in the audit of Birmingham City Council's financial statements in 2019/20 and earlier years, which resulted in recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
WIP	<p><b>Pensions data provided to the actuary</b></p> <p>During our work to assess the accuracy and completeness of the information provided to the actuary in 2019/20, we identified that the data initially submitted for April 2019 did not agree to the Council's payroll records.</p> <p>There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities.</p> <p>This was later corrected by the Council in a subsequent data submission to the actuary.</p> <p>We recommended that management put controls in place to ensure that data issues such as this are picked up prior to submission in future.</p>	<p>We have not identified any issues during our work on the 2020/21 year where submissions did not agree to payroll records.</p> <p>However, we have identified that an element of the Council's liability has been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. We are satisfied that this won't be a material issue, but have yet to confirm the impact of this error.</p>
TBC	<p><b>Incorrect capitalisation of revenue expenditure funded by capital under statute (REFCUS)</b></p> <p>Our testing of items within Property, Plant and Equipment during 2019/20 identified items of REFCUS spend that had been incorrectly included in Assets Under Construction in the draft financial statements.</p> <p>While we gained assurance that this did not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.</p> <p>We recommended that management ensure processes are in place to differentiate between spend that can be capitalised and spend that is being treated as REFCUS.</p>	<p>Testing of a sample of the Council's capital additions and REFCUS transactions is ongoing at the time of writing this report.</p>
TBC	<p><b>Incorrect capitalisation of revenue spend by schools</b></p> <p>Our testing of items within Property, Plant and Equipment during 2019/20 identified items of revenue spend that had been incorrectly capitalised by schools in the draft financial statements.</p> <p>While we gained assurance that this did not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.</p> <p>Management should ensure that processes are in place to ensure that the capital spend submitted by schools is reviewed for accuracy before it is incorporated into the Council's financial records.</p>	<p>Testing of a sample of the Council's capital additions and REFCUS transactions is ongoing at the time of writing this report.</p>



# B. Follow up of prior year recommendations

## Assessment

✓ Action completed

WIP Action in progress

X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Assets valued at below £50,000</b></p> <p>The Council's policy for the revaluation of property plant and equipment states that all assets valued at less than £50,000 will be included in the financial statements at £nil value. There is a risk that in aggregate, these assets could be significantly understating the Council's balance sheet.</p> <p>Management should keep a high-level record of assets where this de minimis has been applied so that an assessment can be made as to whether there is a risk of material misstatement in the PPE balance in future years.</p>	We have confirmed that for the valuations completed during 2020/21 this information has been retained.
TBC	<p><b>Intra-group consolidation adjustments</b></p> <p>After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements.</p> <p>Management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit.</p>	Testing of the Council's consolidation process is ongoing at the time of writing this report.
WIP	<p><b>Open purchase orders in the general ledger</b></p> <p>During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes.</p> <p>We recommended that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year.</p>	<p>Progress has been made to reduce the number of historic purchase orders that are open in the general ledger, but there were still a significant number at 31 March 2021.</p> <p>We recommend that the Council continue to review and cleanse these items.</p>
TBC	<p><b>Capital commitments</b></p> <p>Through performance of our testing, we have noted that the Council's capital commitments note had been prepared based on business cases and on estimated spend to date. While we were satisfied that this does not give rise to a risk of material error in the disclosure note in 2019/20, this disclosure should be prepared based on contracted amounts and actual expenditure against these at the end of the year.</p>	Testing of the Council's capital commitments disclosure is incomplete at the time of writing this report.
X	<p><b>Heritage asset valuations</b></p> <p>The Council's Thinktank heritage asset has not been formally valued for a number of years; the figure used in the 2019/20 financial statements was based upon information compiled by the Council's insurance team. There is a risk that this valuation is not reflective of the asset's actual value. This asset is above our clearly trivial threshold but does not exceed our performance materiality.</p>	No valuation has been performed this year. Management's assessment is that the insurance valuation used remains appropriate.

# B. Follow up of prior year recommendations

## Assessment

- ✓ Action completed
- WIP Action in progress
- X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p><b>Under-accrual of expenditure</b></p> <p>Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing had to be performed..</p> <p>In previous years, similar issues around the completeness of expenditure had been noted. The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future.</p>	<p>Testing of a sample of transactions after 31 March 2021 is ongoing at the time of writing this report. We have identified one issue through the work completed to date, however we are unable to extrapolate the potential impact of this item until our work is complete.</p>
TBC	<p><b>Errors noted in property valuations</b></p> <p>In previous years' audits we identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.</p> <p>Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved.</p>	<p>Testing of a sample of the Council's valuations is ongoing at the time of writing this report.</p>
TBC	<p><b>Disposals omitted from the prior year</b></p> <p>Our testing of disposals recorded in the 2018/19 and 2019/20 financial statements identified assets that should have been derecognised in the previous financial years. We were satisfied that in each instance these were isolated incidents, and there was no material risk to the accounts.</p> <p>The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year.</p>	<p>Testing of a sample of the Council's disposals is ongoing at the time of writing this report.</p>
X	<p><b>Multiple accounts assigned to a single user</b></p> <p>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.</p> <p>Management should consider which users need multiple accounts within SAP and remove access to those where this function is not required.</p>	<p>Although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months.</p>

# B. Follow up of prior year recommendations

## Assessment

✓ Action completed

WIP Action in progress

X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>General IT controls</b></p> <p>As part of our review of IT controls, we identified an excessive number of users with inappropriate access to high risk T-codes within SAP. Our previous IT audit in 2018/19 identified 109 users with potentially inappropriate access out of 668 users tested due their higher risk nature.</p> <p>The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators.</p> <p>Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only.</p>	<p>Although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months.</p>

# C. 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 ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m
<b>COVID-19 Grant Income</b>		
It has been identified that in the draft financial statements the Council have recognised both income and expenditure in relation to COVID-related grants which management now believe should have been excluded as the Council was acting as agent in these transactions. We have reviewed this assessment and consider it reasonable. The financial statements have been corrected as follows:		
Dr Income	216.8	
Cr Expenditure	(216.8)	
<b>Error noted by the Pension Fund audit team</b>		
We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a 11m quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total potential error of £90m.		
The Council's share of this total estimated £90m error is approximately £24.7m. An adjustment has been made for the Council's share of the quantifiable error, being £20.9m, as follows		
Dr Net pension assets		20.9
Cr Return on assets (within Other Comprehensive Income)	(20.9)	
This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility.		
<b>Overall impact</b>	<b>(£20.9m)</b>	<b>£20.9m</b>

# C. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting
<b>Provisions for pension guarantees</b> The Council has released £9.0m previously provided for pension guarantees. At the time of writing this report we have not yet determined whether or not this treatment was appropriate. Should we determine that these liabilities should be reinstated, the impact would be as follows: Dr   Income Cr   Other Liabilities	9.0	(9.0)	The Council believes that there is no present obligation on the Council to pay future instalments of the increase in pension contribution rates.
<b>Extrapolated error noted by the Pension Fund audit team</b> As set out on the previous page, the auditor of the WMPF reported an extrapolated understatement in the valuation of the Fund's assets of £90m. The Council have adjusted their accounts for their share of the quantifiable element of this error (being £76m), but have not adjusted for the extrapolated element. If this further adjustment had been made, the Council's share would have been £3.8m: Dr   Net pension assets Cr   Return on assets (within Other Comprehensive Income)	(3.8)	3.8	This is an extrapolation of an error at the pension fund.
<b>Overall impact</b>	<b>(£5.2m)</b>	<b>£5.2m</b>	

# C. Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit, and whether these have been made in the final set of financial statements.

Disclosure	Commentary	Adjusted?
IFRS 15 (Note 14)	The Council have removed the disclosure of revenue that falls under IFRS 15, as they have demonstrated that the disclosure requirements of the standard are met elsewhere in the financial statements, and they do not believe that this disclosure adds any clarity for the reader of the accounts. We are satisfied that this assessment is reasonable.	✓
Property, Plant and Equipment (Note 22)	While the net value of additions and reclassifications within Assets Under Construction (AUC) and Dwellings in the draft financial statements was correct at £213.5m, the split between additions and reclassifications was incorrect, due to a formula error in the Council's working paper.  AUC additions and reclassifications should be shown as £247.2m and -£33.7m respectively. Dwellings additions and reclassifications should be shown as £102.0m and £6.9m respectively.  This adjustment has been made in the revised financial statements, and has no impact on the net book value of the properties.	✓
Equal Pay Provision (Note 31)	During our work we have identified that the draft financial statements disclosed the net of the movement of the provision reversed unused of £16.2m and the additional provision made of £17.7m, rather than identifying these movements separately. This has been amended and has no impact on the provision value as at 31 March 2021.	✓
Contingent Liabilities (Note 32)	On review of the draft financial statements we identified that the Council had removed the contingent liability in relation to equal pay from the draft financial statements. Following audit challenge this contingent liability has been reinstated in Note 32 of the draft financial statements. As in previous years, we will refer to this uncertainty in our audit report.	✓
Financial Instruments (Note 38)	Management have proposed a number of adjustments to the Financial Instruments disclosure note that they feel better reflect the requirements of the accounting standards and the Code. We are still considering these adjustments at the time of writing this report.	TBC



# C. Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting
<b>Incorrect capitalisation of spend</b> Our testing of a sample of assets transferred out of Assets Under Construction and into operational categories of Property, Plant and Equipment identified assets that should never have been recorded as capital spend, as they should have been treated as either revenue expenditure or REFCUS. We have extrapolated the errors that we identified in order to arrive at an estimated impact of similar transactions. The extrapolated error would impact on the financial statements as follows:			Adjustment is an estimate, and was not material to the financial statements.
Dr Expenditure Cr Property, Plant and Equipment	7.7	(7.7)	
<b>Expenditure for which the Council was unable to provide supporting documentation</b> During testing of a sample of the Council's expenditure transactions, we selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council have been unable to access the supporting documentation for these transactions, which is kept in their offices. We have determined that the total value of similar transactions in the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements. If all such expenditure did not occur, the resulting adjustment would be			This is not necessarily an error in the financial statements, but instead is documentation that was inaccessible due to COVID-19.
Dr Cash and Cash Equivalents Cr Expenditure	(11.5)	11.5	
Continued on next page			

# C. Audit Adjustments

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting
<b>Unadjusted errors and uncertainties in the Council's Property, Plant and Equipment Valuations</b> <p>As set out on page 9 of this report, we have identified potential differences between the carrying value and the current value of the Council's properties at 31 March 2020, as follows:</p> <ul style="list-style-type: none"> <li>Other Land and Building assets valued at 1 April 2019 instead of 31 March 2020. Available market data indicates that this may have led to an overstatement in the value of these assets of £8.6 million;</li> <li>Other Land and Buildings assets not valued in the 2019/20 year. Trends noted from assets that have been valued indicate that this may have led to an overstatement in the value of these assets of £5.2 million;</li> <li>Other Land and Buildings land assets valued on a social housing basis. These values have been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. We have not been provided with an explanation for this difference, and so consider that this indicates that the valuations are overstated by £4.0 million.</li> </ul>			These are not necessarily errors, but are uncertainties in the valuations at 31 March based on the use of indices, and resulting from the Council not valuing all assets at 31 March 2020.
Dr Gain/loss on revaluation of assets Cr Property, plant and equipment	17.8	(17.8)	
<b>Extrapolated error noted by the Pension Fund audit team</b> <p>The auditor of the West Midlands Pension Fund identified an unadjusted error of £33.0 million, being an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements, as opposed to a precise proposed adjustment. The Council's share of the Pension Fund's asset is 27%, indicating that the valuation of the level 3 investments included in the net pension liability in the Authority's balance sheet is overstated by approximately £8.9 million.</p>			This is an extrapolation of an error at the pension fund.
Dr Return on assets Cr Net pension assets	8.9	(8.9)	
<b>Overall impact of prior year unadjusted misstatements</b>	<b>(£22.9m)</b>	<b>£22.9m</b>	

# D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	365,909	TBC
<b>Audit of subsidiary companies</b>		
• Acivico Limited	41,000	41,000
• NEC (Developments) plc	35,000	35,000
<b>Total audit fees (excluding VAT)</b>	<b>£441,909</b>	<b>£TBC</b>

The Council does not separately disclose group audit fees in the notes to the group accounts. The fees for the Council as a single entity reconcile to the financial statements as follows:

• Fees disclosed per financial statements	£458k (rounded to £0.5m)
• Less fee variation in relation to 2019/20	(£92k)
• 2020/21 fees per financial statements	£366k (per table to the left)

Note that the scale fee for the audit of Birmingham City Council is £241,909, and £124,000 of the proposed audit fee set out here is a fee variation which is subject to PSAA approval.

Non-audit fees for other services	Proposed fee	Final fee
<b>Audit Related Services:</b>		
• Certification of 2019/20 Housing Benefits Subsidy claim (August 2020 – January 2021)	£27,500	£27,500
• Certification of 2019/20 Teachers' Pension return (October - November 2020)	£7,500	£7,500
• Certification of 2019/20 housing capital receipts grant (January - April 2021)	£5,500	£5,500
• AMSCI reasonable assurance engagements (April 2021)	£15,000	£15,000
• Certification of 2020/21 Housing Benefits Subsidy claim (commenced June 2021)	£22,500	TBC
• Homes England Compliance Checklist 2020/21 (commenced August 2021)	£6,000	TBC
There were no non-audit related services		
<b>Total non-audit fees (excluding VAT)</b>	<b>£84,000</b>	<b>TBC</b>

