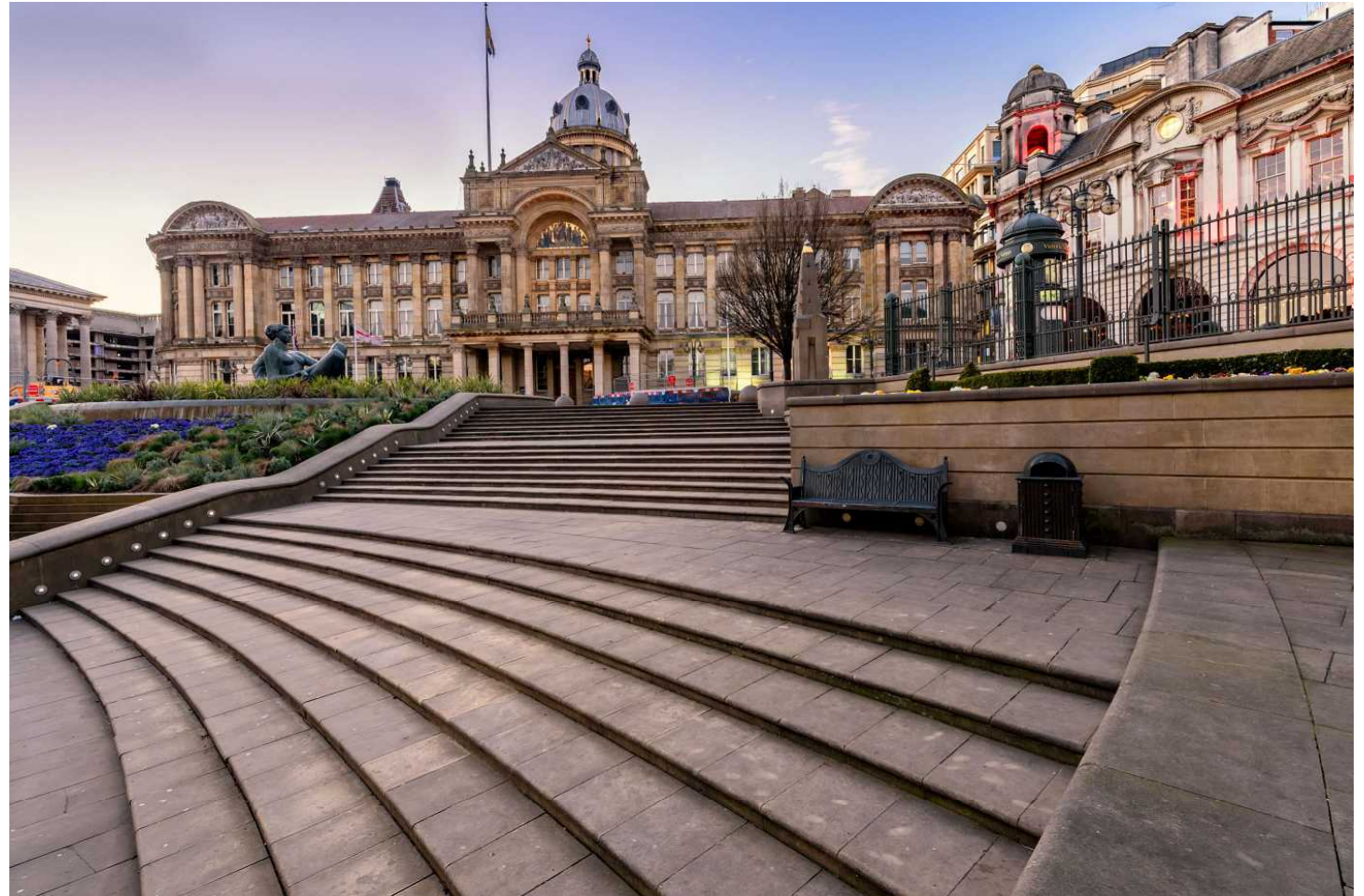


The Audit Findings for Birmingham City Council

Year ended 31 March 2021

28 March 2023





Your key Grant Thornton team members are:

Jon Roberts

Key Audit Partner

T 0117 305 7699

E Jon.Roberts@uk.gt.com

Laurelin Griffiths

Senior Manager

T 0121 232 5363

E Laurelin.H.Griffiths@uk.gt.com

Zak Francis

Manager

T 0121 232 5164

E Zak.Francis@uk.gt.com

Kirsty Lees

Assistant Manager

T 0121 232 5242

E Kirsty.Lees@uk.gt.com

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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
28 March 2023

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.

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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.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the 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 2021. Our findings are summarised on pages 6 to 28. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's general fund. 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 now substantively complete, and 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 resolution of the 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 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 but will be unqualified.

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 completed our VFM work in March 2022, and issued our provisional Auditor's Annual Report at that time. An audit letter explaining the reasons for the delay in this report was presented to the Audit Committee on 30 September 2021. We expect to issue our finalised Auditor's Annual Report at the time that we sign the opinion on the financial statements. 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
- The financial impact of equal pay claims
- Independent reports into issues related to the Home to School Transport Service

The latter four of these risks were identified after the issue of our Audit Plan.

Our work identified four Significant Weaknesses in relation to service delivery and assurance mechanisms for the Home to School Transport Service, the delivery and governance of SEND services, and system access issues in the Council's general ledger. In addition to four Key Recommendations in these areas, we raised a further twelve Improvement Recommendations across the areas that we considered. Further detail is set out on pages 27 and 28.

Management fully engaged with the new approach, and were proactive in providing the information and evidence that we required in a timely and structured manner. We presented our provisional Auditor's Annual Report to the May 2022 meeting of the Council's Audit Committee, following the conclusion of our work.

1. Headlines

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 Whole of Government Accounts (WGA) return.

Significant Matters

As set out on page 15 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. These findings have been discussed with management, who have put in place an action plan to remediate the issues raised.

As set out on pages 16 and 17, additional work has been completed in relation to newly identified audit risks in relation to infrastructure assets. Accounting for infrastructure in local government has not historically been considered to be an area of particular audit risk, due to the nature of the assets involved, and the use of a historical cost basis of accounting. During 2022, concerns were raised nationally that some authorities were not applying component accounting requirements appropriately. The completion of our audit has therefore been delayed as a result of this national technical issue.

Due to the extended period of time over which the audit of the Council's 2020/21 financial statements has been completed, we have also had to consider the issues and findings arising from our audit of the 2021/22 financial statements, and whether these indicate potential areas of concern for 2020/21 where additional work may be required. Where necessary, this additional work has been completed, and any findings arising are included within this report.

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. We have had to alter our approach in relation to this work. In our Audit Plan, as communicated to you on 30 March 2021, we anticipated being able to rely on the work conducted by Crowe UK LLP in obtaining assurance over the figures for Birmingham Children's Trust used in the Council's group accounts in which was completed by Crowe UK LLP. This approach has been superseded as explained on page 22 and we are in the process of conducting specified procedures ourselves.

We also had to alter our Audit Plan 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 pages 13 and 14. 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 15.

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 28 March 2023. These outstanding items include:

- Consideration of the impact of emerging equal pay issues on the Council's provision and contingent liability disclosures as well as the commentary in the Annual Governance Statement;
- Completion of specified audit procedures to gain assurance over material balances in the Council's group accounts;
- Receipt and review of management's representation letter; and
- Receipt and review of the final set of financial statements.

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 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.

Despite the significant passage of time since the commencement of our audit, nothing has occurred since then that has caused us to revise these thresholds.

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>Management override of controls ISA (UK) 240</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"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; identified unusual journals recorded during the year and after the accounts production stage for testing back to supporting evidence for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <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 15 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 testing has been completed 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 has not identified any instances of fraudulent management override. We have, however, identified an instance of a junior member of staff being instructed to incorrectly code a low-value transaction at year-end for the purposes of efficiency during the Council's closedown period. We have been able to gain assurance, through analysis of low-value transactions that were posted to the general ledger during this period, that this approach to year-end adjustments does not give rise to a risk of material error in the financial statements.</p> <p>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>Valuation of land and buildings</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>	Council (and Group)	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; engaged our own valuer to assess the instructions issued by the Council to its valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; tested that revaluations made during the year have been input correctly into the Council's asset register; tested the key inputs into revaluations back to supporting information to ensure that they have been performed based on accurate information; and evaluated 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. <p>Findings</p> <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 has 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>HRA valuations</p> <p>A number of the Council's HRA dwellings (mainly in tower blocks) are included in the financial statements at a value that is below our expectation. These valuations are based on forecast cash flows for rental incomes and maintenance spend, discounted to present value (a Discounted Cash Flow [DCF] approach).</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings (continued)		<p><u>HRA valuations (continued)</u></p> <p>We challenged the Council and their valuer on both the appropriateness of using this approach, which is extremely unusual. Management have been able to provide us with appropriate rationales for the decision to use the DCF approach, and we are satisfied that this is reasonable.</p> <p>We also challenged management on the assumptions and inputs used to create the forecasts. Management were able to demonstrate that the assumed levels of rental income in these models were reasonable, but were unable to support the exact figures used. They were also not able to provide supporting information for the levels of maintenance spend assumed in the forecasts, or how that spend is phased over the period of the forecast.</p> <p>As a result of our work, management and their valuer recreated the cash flow forecasts models for the 8 HRA dwelling archetypes valued using this approach, using inputs and assumptions that could be supported by the Council's financial records and financial plans. This resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million. This adjustment is included in Appendix C.</p> <p><u>DRC valuations</u></p> <p>The Council has a number of specialised assets that are valued on a Depreciated Replacement Cost (DRC) basis. The Council's valuer undertakes a desktop valuation exercise for 80% of DRC assets each year (with the other 20% being subject to a full revaluation). This desktop exercise has been completed using BCIS index movements, which we consider to be appropriate, however it has not considered the impact of increasing obsolescence on valuation of the indexed assets.</p> <p>We challenged this, and management were able to demonstrate that the information was available to incorporate obsolescence into the desktop exercise. Incorporating this into the desktop valuation exercise resulted in a decrease in the overall valuation of the relevant assets of £35.2m.</p> <p><u>Other valuations</u></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. Our detailed testing of a sample of the Council's asset valuations, undertaken since we previously reported to the Audit Committee, has identified a number of errors and issues that have required further consideration, including: errors in the valuation calculations and omissions of elements of assets from the valuations; the use of incorrect information for key inputs such as land values, rental incomes or building characteristics; and the incorrect accounting treatment of valuation movements processed. Management has agreed to amend the financial statements for the errors that have been identified that are above our trivial threshold, but unadjusted misstatements remain in the financial statements, as detailed in Appendix C.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Valuation of the pension fund net liability</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, 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"> • 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; • evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities; and • 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. • 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 • 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. <p>Our work on the liability is complete.</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 have confirmed that the impact of this error on the financial statements is trivial.</p> <p>We have requested that further detail is added to Note 4 of the financial statements disclosing the fact that the Pension Fund valuation at 31 March 2021 was prepared on a roll-forward basis, as is standard, but that this approach leads to inherent levels of uncertainty.</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>Valuation and completeness of the equal pay liability</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>	Council (and Group)	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to estimate the equal pay provision; • reviewed the assumptions on which the estimate was based; • 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; • confirmed that the estimate has been determined and recognised in accordance with accounting standards; • determined how management have assessed the estimation uncertainty; and • considered events or conditions that could have changed the basis of estimation, and the potential impact of any transactions or events after 31 March. <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>Following events in late 2021 in relation to equal pay claims, we requested that management documents its consideration of whether there is now new information in relation to the position at 31 March 2021 that means an adjustment is required in the provision made in the financial statements. Management has provided its assessment, supporting the view that no such amendment is required, and we are in the process of considering and challenging this stance. Management has proposed some additional wording for inclusion in Note 5 of the financial statements, disclosing an event after the reporting period.</p> <p>Before concluding in respect of this risk we will need to consider events or conditions that could have changed the basis of estimation and the potential impact of any transactions or events after the balance sheet date up to the date of signing of the financial statements.</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>Presumed risk of fraud in revenue recognition ISA (UK) 240</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>	<p>Council (and Group)</p>	<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 in this area is complete, and we have not identified any other issues in respect of the Council's revenue recognition.</p>

2. Financial Statements - Significant risks

Risks identified subsequent to our Plan	Risk relates to	Commentary
<p>Risk of fraud in to expenditure recognition PAF Practice Note 10</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>	<p>Council (and Group)</p>	<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>Testing of a sample of items of expenditure recognised in-year has identified a small number of items that either related to financial years other than 2020/21, or had been double-counted in the accruals process at 31 March 2021.</p> <p>The errors identified are clearly trivial on their own, but we were required to consider the potential impact if these errors were representative of the wider population. We have concluded that the potential impact of these issues, based on extrapolation, could be an overstatement of expenditure of £17.8 million. We have included this within the unadjusted misstatements in Appendix C, and have raised a recommendation in this area in Appendix A.</p> <p>Issues were also noted in our consideration of the completeness of the Council's expenditure, with testing of transactions after the end of the financial year identifying items that should have been recorded in 2020/21 but were not. Again, these items were clearly trivial on their own, but an extrapolation of these items indicates that there could be £10.0 million omitted from the Council's 2020/21 expenditure. Again, this has been included within the unadjusted misstatements in Appendix C.</p> <p>We have 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	
<p>IT control deficiencies</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 have been discussed with management, who have put in place an action plan to remediate the issues raised. The detailed IT Audit findings and management responses have been presented to a previous meeting of the 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>Auditor view</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>Management response</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>
<p>Completeness of accruals</p> <p>We are aware that in order to focus attention on the more significant items of income and expenditure at the end of the financial year, finance staff were instructed to focus efforts on items over £5,000.</p>	<p>This guidance was not formally implemented as a change in accounting policy, and the Council has been unable to demonstrate that such a de minimis threshold would not cause a material misstatement if it were implemented across all transactions.</p> <p>We have therefore completed specific testing on transactions after the year-end that were less than £5,000 to ensure that there is no indication that this instruction led to increased levels of omissions from the financial statements, and a potential material issue.</p>	<p>Auditor view</p> <p>Our testing of the completeness of income and expenditure accruals has not identified unusual levels of omissions below this threshold, and we are satisfied that there is not a material misstatement of the 2020/21 financial statements as a result of this guidance.</p> <p>We have raised a recommendation in relation to this area in Appendix A of this report.</p> <p>Management response</p> <p>Clarity will be provided to all finance officers to accrue for all amounts of expenditure and income that relates to the year of accounting.</p>

2. Financial Statements - New issues

Issue	Commentary
<p>Valuations of Infrastructure Assets</p> <p>The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.</p> <p>The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance.</p> <p>We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.</p>	<p>Infrastructure assets include roads, highways, streetlighting, bridges and tunnels. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, we identified two inherent risks in relation to infrastructure assets:</p> <ul style="list-style-type: none"> • The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. • The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. <p>For the avoidance of any doubt, these two risks were not assessed as a significant risk at planning stage, but we have assessed that there is some risk of material misstatement that requires an audit response. CIPFA has consulted on adaptations to the Code and guidance on the application of UELs, which we have factored into our response.</p> <p>In order to be able to conclude whether there is a risk of material misstatement our response is that we have:</p> <ul style="list-style-type: none"> • assessed the risks of material misstatement related to infrastructure assets • updated our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice. <p>We have been able to sample additions to infrastructure in the 2020/21 year to review the basis of asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations but this becomes more difficult in respect of historic infrastructure assets because individual assets are not recorded separately on the Council's fixed asset register.</p> <p>The Authority records its infrastructure assets by sub-category in its fixed asset register for each financial year, eg footways 2016/17, kerbs 2018/19. No supplementary data is available to further break down additions to a project or location level. There is currently no de-recognition of replaced components. As such it would appear that cost and depreciation would be overstated, if there was no statutory override to address the situation.</p> <p>Audit firms, practitioners, DLUH and CIPFA have been in consultation with regard to this national, sector-wide issue and a statutory instrument came into force as of 25 December, specifically in relation to local government's treatment of infrastructure assets.</p> <p>These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code). The English Regulations apply to statements of accounts for financial years beginning on or before 1st April 2024, and to those statements of accounts which have not already been certified by a local auditor.</p> <p>Of particular note is the following: when preparing a statement of accounts to which this regulation applies, a local authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets. ie the brought forward figure is considered to be correct.</p>

2. Financial Statements - New issues

Issue	Commentary
Valuations of Infrastructure Assets (continued)	<p>Therefore while we can be content with the gross book value figure brought forward, and also content that any derecognition and replaced component has a relevant amount of £nil, what we needed to be assured over is the amount of depreciation applied in the year. This is driven by the components' useful economic lives and therefore we considered it appropriate for us to focus audit effort on that area in particular.</p> <p>The Council revisited the economic lives applies to its infrastructure assets and based on information readily available from the highways team a revised set of useful economic life to each component (carriageways, footways and cycleways, structures, streety lights and traffic management) has been determined. We have reviewed the Council's updated approach in line with evidence provided by the highways team as well as consideration of CIPFA's bulletin CIPFA Bulletin 12 Accounting for infrastructure assets temporary solution.</p> <p>The financial statements have been amended in this regard and a revision made to the Council's accounting policy to reflect the application of the statutory instrument. The impact of the application of these revised useful economic lives has been to reduce the depreciation charge in 2020/21 by £1.69m and in 2021/22 by £1.44m. The 2020/21 adjustment is trivial to the 2020/21 accounts as is the 2021/22 adjustment to the 2021/22 financial statements. However, in aggregate the difference in depreciation charge is greater than our trivial threshold for 2021/22 and the Council has elected to adjust for both years in the 2021/22 financial statements. We are satisfied with this treatment.</p>

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
<p>Land and Building valuations</p> <p>Draft: £2,506.9m</p> <p>Final: £2,490.9m</p>	<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"> • 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. • Confirmed that there have been no changes to the valuation method this year. • Considered the source of the inherent risk associated with the accounting estimate. • 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"> • reperforming a sample of valuation calculations; and • testing the inputs into a sample of valuations to source documentation. • 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. • 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. • Confirmed that disclosure of the estimate in the financial statements is considered adequate. <p>Our detailed testing of a sample of the Council's asset valuations identified a number of errors and issues that have required further consideration, including: errors in the valuation calculations and omissions of elements of assets from the valuations; the use of incorrect information for key inputs such as land values, rental incomes or building characteristics; the incorrect accounting treatment of valuation movements processed; and not considering obsolescence on DRC assets valued using a desktop exercise.</p> <p>Management has agreed to amend the financial statements for the errors that have been identified that are above our trivial threshold, but unadjusted misstatements remain in the financial statements, as detailed in Appendix C.</p>	<p>Following the adjustments identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

2. Financial Statements - Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations (continued)		<p><u>Uncertainties noted in the Council's estimation process:</u></p> <p>As noted, the Council utilises a rolling programme of revaluations to ensure that the financial statements are materially accurate, where a proportion of assets are valued each year. Consideration of market movements since the last valuation of assets not valued in 2020/21 indicates that these values could be misstated at the end of the financial year.</p> <p>We have identified that the Council's assets that are part of this rolling programme but have not been revalued in 2020/21 could be overstated by £13.5m. Of this, those that are valued on a Depreciated Replacement Cost basis could be overstated by £20.5m and the Council's assets valued on the basis of Existing Use Value could be understated by £7.0m.</p> <p>We do not consider this to be an error in the financial statements. The purpose of our work is to assess the reasonableness of the Council's estimate and to determine whether the estimate in the financial statements contains a material misstatement. Based on the work we have done we do not consider the estimate to be unreasonable or materially flawed. We are also satisfied that this uncertainty, when considered in the round with the unadjusted errors identified in the Council's land and building valuations as reported in Appendix C, does not indicate a material error in the financial statements.</p> <p>No other areas of concern have been identified through our work.</p>	

2. Financial Statements - Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Council dwelling valuations</p> <p>Draft: £2,568.0m</p> <p>Final: £2,609.8m</p>	<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"> • 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. • Considered the source of the inherent risk associated with the accounting estimate. • Analysed the method, data and assumptions used by management to derive the accounting estimate. • 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. • 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"> • 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 • challenged the selection of beacon properties used for archetypes where these have changed since the prior year. • Confirmed that disclosure of the estimate in the financial statements is considered adequate. <p>As set out on pages 9 and 10, the Council has 8 archetypes that are valued using a DCF approach, and the valuation of these assets has been revised following our audit challenge. This resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million. This adjustment is included in Appendix C.</p>	<p>Following the adjustments identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

2. Financial Statements - Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council dwelling valuations (continued)		<p><u>Uncertainties noted in the Council's estimation process:</u></p> <p>The Council valued its HRA properties as at 5 February 2021, instead of using a valuation date of 31 March 2021. Using data regarding market movements from the Land Registry we have estimated that due to the time between the valuation date and the year end these values could be understated at the end of the financial year by £22.1m.</p> <p>Again, we do not consider this to be an error in the financial statements. The purpose of our work is to assess the reasonableness of the Council's estimate and to determine whether the estimate in the financial statements contains a material misstatement. Based on the work we have done we do not consider the estimate to be unreasonable or materially flawed. We are also satisfied that this uncertainty, when considered in the round with the unadjusted errors identified in the Council's land and building valuations as reported in Appendix C, does not indicate a material error in the financial statements.</p> <p>No other areas of concern have been identified through our work on the Council's beacon methodology and the resulting valuations.</p>	

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 11 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
Grants Income Recognition and Presentation	<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"> 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 Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance 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 	<p>Our work on the Council's grant income is complete, and 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"> 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. 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. 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. Management's disclosure of the Council's accounting treatment for grant income is sufficient. 	<p>Following the adjustment identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious</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 Grant Thornton UK LLP (approach changed since Audit Plan)	<p>We did not identify any significant risks of misstatement of the group financial statements.</p> <p>A change to our planned approach has arisen as we had originally anticipated using the work of the component auditor (Crowe UK LLP). We subsequently identified that the component auditor has been engaged to provide tax and financial statement preparation services to a significant component of the group, being the Birmingham Children's Trust. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.</p> <p>Whilst Crowe UK LLP was content that it was able to provide the services, under the ethical rules applicable to its audit of the Children's Trust, we identified these services are prohibited under the more stringent Ethical Standard in place for the Group audit. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion.</p>	<p>We are undertaking procedures on the material figures used in the consolidation for the purposes of group accounts, being those in relation to operating expenditure, staff costs, the net pension liability and journals (the latter of which is to mitigate against the presumed risk of management override).</p> <p>This work is still underway as at the time of writing, though we have no findings to bring to your attention.</p> <p>Birmingham Children's Trust has received an unqualified opinion from its auditors, and while we are unable to rely on their work, we have used the outcome of their audit as part of our risk assessment in considering which areas of focus may be required.</p> <p>The audit team identified an error in the Council's consolidation process where the Trust's pension reserve had been incorrectly recorded as an unusable reserve in the group financial statements, when it should have been included in usable reserves. This has been amended in the group financial statements, and is included in Appendix C to this report.</p>

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

Component	Individually Significant?	Audit approach	Findings	Conclusion
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 - 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. These requests were returned with positive confirmation.
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>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>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> 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 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. <p>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 style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 note however, that the Annual Governance Statement will need to be updated to reflect any changes or emerging issues as it is required to comment upon events up to the date that the accounts are authorised for publishing. We plan to issue an unmodified opinion in this respect, subject to these updates.</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"> • 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, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <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 planned to be complete by the time we are in a position to issue our audit report.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2020/21 audit of Birmingham City Council in the audit report, once the following work is complete:</p> <ul style="list-style-type: none"> • issuance of our final Auditor's Annual Report on the Council's arrangements to secure value for money; and • completion of required procedures on the Council's WGA return.



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 completed all of our planned VFM work and are issued our provisional Auditor's Annual Report in March 2021, and presented this to the Audit Committee in May 2021. An audit letter explaining the reasons for the delay in this report was presented to the September 2021 meeting of the Audit Committee. We are intending to issue our finalised Auditor's Annual Report at the time that we issue our audit report. 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).

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 the risks set out in the table below. The latter four of these risks were identified since the issue of our Audit Plan. This table also summarises our findings, as reported in our provisional Auditor's Annual Report.

Risk identified	Linked to reporting criteria	Conclusion & recommendations
Financial impact of the Commonwealth Games	Financial sustainability Governance Improving economy, efficiency & effectiveness	No significant weaknesses in arrangements identified. No recommendations made.
Contractual arrangements relating to the highways PFI scheme	Financial sustainability Governance Improving economy, efficiency & effectiveness	No significant weaknesses in arrangements identified. Five improvement recommendations made.
Waste service continuity and industrial relations	Financial sustainability Governance Improving economy, efficiency & effectiveness	No significant weaknesses in arrangements identified. One improvement recommendation made.
Potential impact of a lack of stable leadership due to significant level of turnover of key staff and officers	Financial sustainability Governance Improving economy, efficiency & effectiveness	No significant weaknesses in arrangements identified. Two improvement recommendations made.
Arrangements in relation to required improvements in SEND services	Financial sustainability Governance Improving economy, efficiency & effectiveness	A significant weakness has been identified in relation to the delivery and governance of SEND services. We have made one key recommendation and no improvement recommendations.
IT Audit findings and planned changes to the Council's general ledger	Financial sustainability Governance Improving economy, efficiency & effectiveness	A significant weakness has been identified in relation to system access. We have made one key recommendation, and a further four improvement recommendations, of which three have already been actioned.
Financial impact of equal pay claims	Financial sustainability Governance Improving economy, efficiency & effectiveness	No significant weaknesses in arrangements identified. No recommendations made.
Independent reports into issues related to the Home to School Transport Service	Financial sustainability Governance Improving economy, efficiency & effectiveness	Two significant weaknesses have been identified in relation to service delivery and assurance mechanisms. We have made two key recommendations and no improvement recommendations.

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 its 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.

During the audits of the year ended 31 March 2021 and 31 March 2022, a non-Grant Thornton member firm in the UK has been engaged to provide tax and financial statement preparation services to a significant component of the group. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.

We identified these prohibited services through our group audit oversight. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion.

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 March 2023, 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"> • Self-Interest (because these are recurring fees) • Self Review • Management 	The level of recurring fees taken on their own are not significant in comparison to the scale fee for the audit of £241,909, or the confirmed final fee for the audit of £441,034 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		
Certification of 2020/21 Housing Benefits Subsidy claim [June 2021 – January 2022]	22,500		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.
Certification of 2020/21 Teachers' Pension return [November 2021 – January 2022]	7,500		
Certification of 2020/21 Housing capital receipts grant [January – February 2022]	5,500		
Certification of 2021/22 Housing Benefits Subsidy claim [May 2022 – January 2023]	22,500		
Certification of 2021/22 Teachers' Pension return [commenced June 2022]	7,500		
Certification of 2021/22 Housing capital receipts grant [commenced March 2023]	7,500		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.

Table continues on the following page...

4. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Audit related (continued...)			
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.
BEIS grants assurance 2019/20 and 2020/21 (November – December 2021)	20,000	None	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £20,000 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

Controls

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

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
Low	<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>Management response</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>
Medium	<p>Our testing of a sample of the Council's revaluations of land and buildings assets identified instances of capital transactions which involved splitting or combining assets not being accounted for correctly due to limitations of the Council's fixed asset register.</p> <p>We have gained sufficient assurance that the impact of these issues were trivial for the 2020/21 financial year, but this could be a bigger issue if there were more or larger assets involved.</p>	<p>We recommend that the Council implements a formal approach to correctly accounting for these types of transactions to avoid similar issues arising in future years.</p> <p>Management response</p> <p>Accounting for splitting or combining of assets will be reviewed and undertaken in line with the requirements of the Accounting Code.</p>
High	<p>A number of the Council's HRA dwellings (mainly in tower blocks) are valued using a Discounted Cash Flow (DCF) approach. When we challenged the Council's initial valuations, management were unable to support the levels of maintenance spend assumed in the forecasts, or how that spend was phased over the period of the forecast.</p> <p>As set out on page 10, this resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million.</p>	<p>We recommend that the Council ensures that in future years the inputs into the DCF models are reasonable and supportable.</p> <p>Management response</p> <p>This recommendation was actioned as part of the process of finalising the financial statements for 2021/22.</p>

A. Action plan – Audit of Financial Statements

Controls

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

Assessment	Issue and risk	Recommendations
Medium	<p>Of the errors identified in relation to the occurrence and completeness of expenditure in the Council's 2020/21 financial statements, the majority of issues related to information provided to the Council from schools.</p> <p>We have gained sufficient assurance that these errors did not lead to a material misstatement of the financial statements, but there is scope for larger errors to arise due to incorrect or incomplete information being provided to the Council.</p>	<p>We recommend that the Council issues further guidance to schools on the information that they require, and implement a process to satisfy itself that the information received is accurate and complete.</p> <p>Management response</p> <p>Guidance and Training will be provided to schools on this matter as well as carrying out checks on material balances.</p>
Medium	<p>We are aware that in order to focus attention on the more significant items of income and expenditure at the end of the financial year, finance staff were instructed to focus efforts on items over £5,000.</p> <p>This guidance was not formally implemented as a change in accounting policy, and the Council has been unable to demonstrate that such a de minimis threshold would not cause a material misstatement if it were implemented across all transactions.</p> <p>Our testing of the completeness of income and expenditure accruals has not identified unusual levels of omissions below this threshold, and we are satisfied that there is not a material misstatement of the 2020/21 financial statements as a result of this guidance.</p>	<p>We recommend that the Council decides whether or not to implement a de minimis policy for year-end accruals, in order to avoid confusion on the part of finance staff. If such a policy is considered appropriate, it should be supported by a full assessment of the risk of material misstatement as a result of its implementation.</p> <p>Management response</p> <p>Clarity will be provided to all finance officers to accrue for all amounts of expenditure and income that relates to the year of accounting.</p>
Medium	<p>We identified that the valuer's terms of engagement for the HRA valuations had a section specifically in relation to the methodology to be used for the valuation of dwellings, but that the only methodology referenced in this was the beacon property method. This is the same in other related documents (instructions, valuation certificate) where no reference is made to DCF.</p>	<p>We recommend that the Council reviews the instructions and terms of engagement with the valuer to ensure that they properly reflect the work that is required. We consider that it would be appropriate to include reference to the option to use a DCF methodology and to explicitly state when this methodology should be used and why.</p> <p>Management response</p> <p>Reference and rationale for using DCF as a methodology will be stated in the valuer's terms of engagement</p>
Medium	<p>Through work performed prior to the statutory instrument coming in to force at the end of 2022, we identified that the Council's fixed asset records do not contain sufficient detail to enable them to assess the condition of individual assets, or determine enhancements made to individual assets.</p> <p>We are satisfied that this would not lead to a material misstatement of the 2020/21 financial statements due to the statutory override, however this override is not a permanent solution.</p>	<p>We recommend that the Council reviews its records with a view to improving the information held on infrastructure assets.</p> <p>Management response</p> <p>The Council holds detailed condition information in records held by the service.</p>

A. Action plan – Audit of Financial Statements

Controls

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

Assessment	Issue and risk	Recommendations
Medium	<p>Our work in relation to the Council's Related Party Transactions disclosure (Note 47) identified several instances of interests that were not declared by members or officers, and that were subsequently not identified by the Council's procedures.</p> <p>We are satisfied that this does not lead to a material risk of omission or misstatement in the financial statements, however the Council should be aware of all of its related parties to ensure that any transactions with such entities are treated appropriately.</p>	<p>We recommend that:</p> <ol style="list-style-type: none"> 1. Additional checks are performed by the Council to confirm the completeness of the declarations received. 2. Declarations should be requested from all senior officers, even those in short-term posts. 3. Member declarations should be updated when a member's interests change, and at least annually. <p>Management response</p> <p>Democratic services and Legal services will review the process for Member and Senior Officer declarations.</p>
Low	<p>We have identified instances of debtor and creditor codes containing historic and unmatched entries (ie entries where the debit doesn't exactly match the credit so both entries remain active in the system). We consider that the existence of these balances must make it difficult for the Council to properly monitor its debtors and creditors.</p>	<p>We recommend that an exercise is completed to review these historic balances and remove them where appropriate so that the Council's data can be used for its required purpose.</p> <p>Management response</p> <p>Balances will be reviewed as the Council prepares for migration to Oracle. A continuous review of the Balance Sheet will be implemented to ensure balances are verifiable and current.</p>
Low	<p>During the completion of our expenditure testing, we identified a transaction transferring costs between directorates on the face of the CIES, which related to the MRP charge on the Council's highways PFI assets. We have been able to gain a full understanding of the sequence of transactions that result in this adjustment in the CIES being required, and we are satisfied that the underlying accounting results in the correct treatment in the financial statements.</p> <p>We consider that the basis for these transactions, which appears to be driven by management accounting and the Council's budget process, is overly complex.</p>	<p>We recommend that the Council reviews the accounting in question and considers whether there is a more straight-forward approach to achieve the same results.</p> <p>Management response</p> <p>The process for MRP calculation for this PFI will be documented and where needed streamlined to ensure it is easy to follow.</p>

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>Pensions data provided to the actuary</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. The impact of this error was below our clearly trivial threshold.</p>
✓	<p>Incorrect capitalisation of revenue expenditure funded by capital under statute (REFCUS)</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 did not identify any similar issues this year.</p>
✓	<p>Incorrect capitalisation of revenue spend by schools</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 did not identify any similar issues this year.</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>Assets valued at below £50,000</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>	<p>We have confirmed that for the valuations completed during 2020/21 this information has been retained.</p>
WIP	<p>Intra-group consolidation adjustments</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>	<p>Testing of the Council's consolidation process identified a material error in the treatment of the Birmingham Children's Trust pension reserve. This is a reduction in the number of errors identified in the previous year, indicating that improvements have been made to the process.</p>
WIP	<p>Open purchase orders in the general ledger</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 continues to review and cleanse these items.</p>
✓	<p>Capital commitments</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>	<p>Testing of the Council's capital commitments disclosure did not identify any similar issues in 2020/21.</p>
X	<p>Heritage asset valuations</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>	<p>No valuation has been performed this year. Management's assessment is that the insurance valuation used remains appropriate.</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
WIP	<p>Under-accrual of expenditure</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 identified a small number of omitted items. Testing of expenditure in our 2021/22 audit also identified a small number of items which should have been recognised in 2020/21. While we have assurance that this does not lead to a material misstatement of the financial statements, there is still room for improvement in this area.</p>
X	<p>Errors noted in property valuations</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 identified a number of issues again in 2020/21, several of which could have been picked up through review.</p>
✓	<p>Disposals omitted from the prior year</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 did not identify any similar issues in 2020/21.</p>
X	<p>Multiple accounts assigned to a single user</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>General IT controls</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
COVID-19 Grant Income		
It has been identified that in the draft financial statements the Council has 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	217.7	
Cr Expenditure	(217.7)	
During the preparation of the 2021/22 draft financial statements, the Council identified 4 grants that it had been treating as agency transactions but for which, on review, management determined that the Council was acting as principle. These grants had not formed part of our sample testing in 2020/21, but we have since reviewed this treatment and deem it appropriate. The financial statements have therefore been further adjusted as follows:		
Dr Expenditure	6.3	
Cr Income	(6.3)	
Error noted by the Pension Fund audit team		
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.		

Continued on next page

C. Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m
Revaluation of the Council's land and buildings		
Our testing of the valuations performed on the Council's land and building assets has focussed on the highest value assets, and those assets where the movements between valuations was not in line with our expectations. There were 41 such assets in the financial statements, and our testing has identified issues with 15 of these.		
Management has agreed to adjust for the non-trivial errors identified (non-trivial errors are included as unadjusted items on page 46):		
Dr Property, Plant and Equipment		10.2
Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC)	(10.2)	
Unsupported valuation assumptions for HRA dwellings		
As set out on page 10, a number of the Council's HRA dwellings, mainly in tower blocks, are included in the financial statements at zero value. Following our challenge of the appropriateness of the use of this valuation methodology, and audit work performed on the appropriateness of the data and assumptions used for the inputs into the cash flow models for the 8 HRA dwelling archetypes valued using this approach, management and the Council's valuer have reperformed these valuations, resulting in an adjustment to the financial statements as follows:		
Dr Property, Plant and Equipment		42.4
Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC)	(42.4)	
Obsolescence of assets valued using indices		
As set out on page 10, the Council values a proportion of its DRC assets using indices each year. We identified through our audit work that no consideration was given to the obsolescence of these assets (a key factor in a DRC valuation) as part of this indexation exercise. Following our challenge, management have been able to quantify the impact of obsolescence on these assets, resulting in an adjustment to the financial statements as follows:		
Dr Movement taken to the Surplus/Deficit on Provision of Services (TBC)	24.6	
Dr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC)	10.6	
Cr Property, Plant and Equipment		(35.2)

Continued on next page

C. Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m
Application of incorrect social housing factor to valuations		
Within other land and buildings, the Council has land assets which are 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%.		
This error has been adjusted as follows:		
Dr Movement taken to the Surplus/Deficit on Provision of Services (TBC)	0.5	
Dr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC)	3.5	
Cr Property, Plant and Equipment		(4.0)
Asset that should have been transferred out of Assets Under Construction		
Testing of the balance of assets under construction at 31 March 2021 identified an asset, with a value of £19.6m, that was ready for use before the end of the financial year and therefore should have been transferred into the Council's operational property. As it should have been operational at year-end, it should also have been subject to valuation with the Council's other land and building assets. The Council have therefore valued this asset at 31 March 2021 in order to record this in the financial statements.		
Processing the valuation has the following impact:		
Dr Movement taken to the Surplus/Deficit on Provision of Services (TBC)	5.3	
Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC)	(1.4)	
Cr Property, Plant and Equipment		(3.9)
Assets misclassified between operational assets and assets held for sale		
It was identified that two assets had been transposed within the asset categories in the asset register, and hence on the Council's balance sheet. Correcting this has had the following impact on the financial statements:		
Dr Assets Held for Sale		2.2
Cr Property, Plant and Equipment		(2.2)
Overall impact (Authority)	(£30.4m)	£30.4m

C. Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m
Error in consolidation of Birmingham Children's Trust's financial statements		
The audit team identified an error in the Council's consolidation process where the Trust's pension reserve had been incorrectly recorded as an unusable reserve in the group financial statements, when it should have been included in usable reserves. This has been amended in the group financial statements, and is included in Appendix C to this report. The financial statements have been corrected as follows:		
Dr Group Usable Reserves		151.7
Cr Group Unusable Reserves		(151.7)
Overall impact (Group)	(£30.4m)	£30.4m

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
<p>Extrapolated error noted by the Pension Fund audit team</p> <p>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 has adjusted its accounts for its share of the quantifiable element of this error (being £76m), but has not adjusted for the extrapolated element.</p> <p>If this further adjustment had been made, the Council's share would have been £3.8m:</p> <p>Dr Net pension assets</p> <p>Cr Return on assets (within Other Comprehensive Income)</p>		3.8	This is an extrapolation of an error at the pension fund.
<p>Occurrence of expenditure</p> <p>Our testing of the Council's expenditure transactions was completed based on two separate populations – expenditure recorded in Q1-Q3, and expenditure recorded in Q4.</p> <p>Testing of items in Q1-Q3 identified an issue in relation to expenditure that should have been recognised in 2019-20, per page 47.</p> <p>We also tested 160 transactions from Q4. Of these, we identified one item which had been treated incorrectly, with £783 counted twice in the 2020/21 financial year, and £675 recognised in the 2020/21 financial year when it should have been recognised in the 2021/22 financial year. As there is no clear reason for this fail that would allow us to isolate this issue to any particular population, we have extrapolated it over the population of similar expenditure in Q4, giving a projected overstatement of current year expenditure as follows:</p> <p>Dr Creditors</p> <p>Cr Expenditure</p>	(3.8)	5.9	Non-material extrapolated error
Continued on next page			

C. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting
<p>Exclusion of land and buildings valued at less than £50,000</p> <p>The Council has a policy of excluding assets with a value less than £50k from its financial statements. Following an audit recommendation in 2019/20, high level records of these valuations are now kept, but this was not the case prior to 2020/21.</p> <p>The Property, Plant and Equipment balance in the financial statements is therefore understated. The maximum potential understatement (if all such assets were valued at £50k in previous years) is £10.9m. Using the average value in 2020/21 as an estimate for the average value across these assets would give the following omission:</p> <p>Dr Property, Plant and Equipment</p> <p>Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income)</p> <p>We are satisfied that the exclusion of these assets does not give rise to a material error in the financial statements, but feel it is appropriate to consider it here along with other differences in the Property, Plant and Equipment balance.</p>	(3.8)	3.8	Non-material extrapolated error
<p>Revalued land and buildings</p> <p>As set out on page 41, our testing of the valuations of the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with 15 of 41 such items.</p> <p>Management have only adjusted for the non-trivial errors identified, which reduces the under-valuation of assets to £2.1m:</p> <p>Dr Property, Plant and Equipment</p> <p>Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income)</p> <p>We have also tested a sample of 25 of the remaining valuations, identifying issues with a further 7 of these, which indicate a potential understatement of the Council's Property, Plant and Equipment balance:</p> <p>Dr Property, Plant and Equipment</p> <p>Cr Movement taken to the Surplus/Deficit on Provision of Services</p> <p>Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income)</p>	(2.1) (1.9)	2.1 4.0	Misstatements not material

Continued on next page

C. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting																
Completeness of expenditure Our testing of cash transactions after 31 March 2021 identified 4 items which were omitted from the 2020/21 year in error. In total we tested 180 cash transactions from the months of April, May, June and July 2021. We have assessed these omitted items as follows: <ul style="list-style-type: none"> For three of the items (a credit note with a value of £5,832, an invoice with a value of £710, and an invoice for £42,562) there was no clear reason for the fail that would allow us to isolate the issue to any particular population, so we have extrapolated these errors over the population of similar expenditure-related cash receipts in the four months to July 2021. <table> <tr> <td>Dr Expenditure</td><td>5.7</td><td></td><td></td></tr> <tr> <td>Cr Creditors</td><td></td><td>(5.7)</td><td></td></tr> </table> For the remaining item (an invoice with a value of £2,275) the error was caused by incorrect information being provided to the Council by one of its schools, and not an issue within the Council's finance team. We therefore considered it appropriate to perform additional, focussed testing on a sample of similar items submitted by the Council's schools, to determine the potential prevalence of similar issues. The total population subject to this extended testing is £11.8m and therefore immaterial, and further testing of a sample of 5 items from this population resulted in a further 3 similar errors and a projected misstatement as follows: <table> <tr> <td>Dr Expenditure</td><td>4.3</td><td></td><td></td></tr> <tr> <td>Cr Creditors</td><td></td><td>(4.3)</td><td></td></tr> </table> 	Dr Expenditure	5.7			Cr Creditors		(5.7)		Dr Expenditure	4.3			Cr Creditors		(4.3)				Non-material extrapolated errors
Dr Expenditure	5.7																		
Cr Creditors		(5.7)																	
Dr Expenditure	4.3																		
Cr Creditors		(4.3)																	
Adjusting event for the settlement of a legal case after the end of the reporting period The settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that the Council's provisions at 31 March 2021 were understated, with an equal and opposite understatement in expenditure: <table> <tr> <td>Dr Expenditure</td><td>3.7</td><td></td><td></td></tr> <tr> <td>Cr Provisions</td><td></td><td>(3.7)</td><td></td></tr> </table>	Dr Expenditure	3.7			Cr Provisions		(3.7)				Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material.								
Dr Expenditure	3.7																		
Cr Provisions		(3.7)																	
Continued on next page																			

C. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting								
<p>Depreciation of infrastructure</p> <p>The Council has revisited and reviewed the useful economic lives (UEls) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UEls going forward has been established. The impact of these revised UEls is to reduce the depreciation charge in both 2020/21 and 2021/22.</p> <p>Management assessed that the impact on 2020/21 would be below £1.7m and trivial to the financial statements. They are therefore proposing not to adjust for this. Having reviewed the workings provided, we have determined the impact in 2020/21 to be greater, at £1.8m, and therefore above our clearly trivial threshold.</p> <p>Processing this adjustment in 2020/21 would have the following impact:</p> <table> <tr> <td>Dr</td><td>Property, Plant and Equipment (Infrastructure Assets)</td><td>1.8</td><td></td></tr> <tr> <td>Cr</td><td>Depreciation Charge</td><td>(1.8)</td><td></td></tr> </table>	Dr	Property, Plant and Equipment (Infrastructure Assets)	1.8		Cr	Depreciation Charge	(1.8)				Not material
Dr	Property, Plant and Equipment (Infrastructure Assets)	1.8									
Cr	Depreciation Charge	(1.8)									
Overall impact (Group)	(£7.7m)	£7.7m									

C. Audit Adjustments

Impact of unadjusted misstatements identified in the current year audit which relate to the prior year

The table below provides details of adjustments identified during the current year audit which would impact on the prior year and have not been adjusted.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting
Occurrence of expenditure Our testing of the Council's expenditure transactions was completed based on two separate populations – expenditure recorded in Q1-Q3, and expenditure recorded in Q4. In total we tested 142 transactions from Q1-Q3. Of these, we identified one item of £17,024 which should have been recorded in 2019/20 and was not. As there is no clear reason for this fail that would allow us to isolate this issue to any particular population, we have extrapolated it over the population of similar expenditure in Q1-Q3, giving a projected overstatement of current year expenditure (and understatement of prior-year expenditure) as follows:			Non-material extrapolated prior period error
Dr Brought forward reserves Cr 2020/21 Expenditure	(11.9)	11.9	
Revalued land and buildings As set out on page 41, our testing of valuations focussed on the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with the prior year valuations of 4 of 41 such items, leading to a potential understatement of these assets at 31 March 2020 as follows:			Non-material prior period error
Dr Movement taken to Revaluation Reserve in 2020/21 Cr Brought forward Revaluation Reserve	10.7	(10.7)	
Overall impact (Group)	(£1.2m)	£1.2m	

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
<p>Incorrect capitalisation of spend</p> <p>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.</p> <p>We have revisited these items this year and reconsidered their potential impact. Based on information now available, we are satisfied that the potential impact of these errors on the prior year financial statements would have been trivial.</p>	N/A	N/A	N/A
<p>Expenditure for which the Council was unable to provide supporting documentation</p> <p>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 has been unable to access the supporting documentation for these transactions, which is kept in its offices.</p> <p>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.</p> <p>As this was not necessarily an error in the financial statements, but instead was documentation that was inaccessible due to COVID-19, and as no similar issues have been identified through our testing of expenditure during the 2020/21 audit, we therefore consider it appropriate to exclude this issue from our consideration of the prior year misstatements.</p>	N/A	N/A	N/A
Continued on next page			

C. Audit Adjustments

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Reason for not adjusting
Unadjusted errors and uncertainties in the Council's Property, Plant and Equipment Valuations We identified potential differences between the carrying value and the current value of the Council's properties at 31 March 2020, as follows: <ul style="list-style-type: none"> 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; 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; 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. 			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)	
Extrapolated error noted by the Pension Fund audit team 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.			This is an extrapolation of an error at the pension fund.
Dr Return on assets Cr Net pension assets	8.9	(8.9)	
Overall impact of prior year unadjusted misstatements	(£26.7m)	£26.7m	

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?
Critical Judgements (Note 2)	Other than the disclosure in relation to the highways PFI arrangements, we do not consider that the items included in Note 2 meet the definition of critical judgements, and therefore these should not be included in this disclosure.	X
	Following the completion of our audit procedures on the Council's HRA dwelling valuations, we requested that management disclose their judgement that DCF is an appropriate valuation methodology for some of the Council's dwelling archetypes.	✓
Estimation Uncertainties (Note 4)	We have confirmed with the Council's valuer that there is not a material valuation uncertainty in the Council's asset valuations at 31 March 2021 and therefore requested that reference to this be removed.	✓
	We have also requested that additional narrative be added to this note relating to the actuary's approach to the valuation of the pension fund, and specifically the roll-forward approach and its inherent uncertainties.	✓
	We do not consider that the items included in Note 4 relating to heritage assets, PFI schemes, equal pay, and Covid-19 meet the definition of estimation uncertainties, and therefore these should not be included in this disclosure.	X
	Finally, we do not consider that the disclosure relating to the uncertainties within the valuation of the Council's land and buildings and HRA dwellings, or the actuarial valuation of the pension fund liability contain all of the necessary information to meet the requirements of IAS 1.	X
Events After the Reporting Period (Note 5)	Following events since the balance sheet date in relation to equal pay claims, management have proposed some additional wording for inclusion in Note 5 of the financial statements, disclosing an event after the reporting period.	✓
EFA and related note (Note 6 & 7)	The draft financial statements were prepared using an early version of the relevant working paper, leading to amendments being required to this disclosure.	✓
IFRS 15 (Note 14)	The Council has 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.	✓
Unusable Reserves (Note 19)	The Pension Reserve disclosure has been adjusted to show the amount reversed out of the Surplus/Deficit on the Provision of Services as £246.0m and employer contributions as £147.3m to make this disclosure consistent with the figures disclosed in the Pension Liability disclosures in Note 21.	✓

C. Audit Adjustments

Disclosure	Commentary	Adjusted?
Property, Plant and Equipment (Note 22)	<p>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.</p> <p>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.</p> <p>This adjustment has been made in the revised financial statements, and has no impact on the net book value of the properties.</p>	✓
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)	<p>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.</p> <p>We have requested some amendments to the amounts presented in these revised disclosures, and the narrative around them, to ensure that these are consistent with the audited figures from the prior year.</p>	✓
Related Parties (Note 47)	<p>Note 47 includes information about relationships that do not meet the definition of related parties and so material information within this disclosure is obscured by unnecessary information.</p> <p>In addition, while we have not identified any issues with the Council's treatment of income and expenditure under S75, the inclusion of this information within the related party disclosures obscures information that is required to be reported.</p>	X
Group accounts	<p>Several minor amendments have been agreed to the group financial statements to make these consistent with the underlying information and evidence.</p> <p>In addition, we note that there are a number of immaterial disclosure notes in the group accounts that could be omitted. Management have not removed these, but will consider this going forward.</p>	X

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	441,034
Audit of subsidiary companies		
• Acivico Limited	41,000	41,000
• NEC (Developments) plc	35,000	35,000
Total audit fees (excluding VAT)	£441,909	£517,034

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 Audit Plan)
• Plus additional fee variation in relation to 2020/21	£75k
• Total 2021/22 financial statements audit fees	£441k (per table to left)

Note that the scale fee for the audit of Birmingham City Council is £241,909, and the audit fee set out above includes a fee variation which has received PSAA approval.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• 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
• Homes England Compliance Checklist 2020/21 (August – September 2021)	£6,000	£6,000
• Certification of 2020/21 Housing Benefits Subsidy claim (June 2021 – January 2022)	£22,500	£22,500
• BEIS grants assurance work for the 2019/20 and 2020/21 years (November – December 2021)	£22,000	£20,000
• Certification of 2020/21 Teachers' Pension return (November 2021 – January 2022)	£7,500	£7,500
• Certification of 2020/21 housing capital receipts grant (January – February 2022)	£5,500	£5,500
• Certification of 2021/22 Housing Benefits Subsidy claim (May 2022 – January 2023)	£22,500	£22,500
• Certification of 2021/22 Teachers' Pension return (commenced June 2022)	£7,500	TBC
• Certification of 2021/22 housing capital receipts grant (commenced March 2023)	£7,500	TBC
There were no non-audit related services		
Total non-audit fees (excluding VAT)	£160,000	TBC

