

BIRMINGHAM CITY COUNCIL**PUBLIC REPORT**

Report to:	AUDIT COMMITTEE
Report of:	Director of Council Management
Date of Decision:	19 October 2021
Subject:	STATEMENT OF ACCOUNTS 2020/21 & AUDIT FINDINGS REPORT
Wards affected: All	
1 Purpose	
1.1. This report presents:	<ul style="list-style-type: none">• The Draft Statement of Accounts;• Grant Thornton's Draft Audit Findings Report, which summaries the significant outcomes, conclusions and recommendations on the financial statements from their external audit work;• The Letter of Representation from the Director of Council Management
2 Decisions recommended:	
2.1. Audit Committee is recommended to:	<ul style="list-style-type: none">• Note the Draft Audit Findings Report from Grant Thornton and accept the recommendations of that report;• Approve the Letter of Representation• Approve the Statement of Accounts for 2020/21 subject to external audit clearance of the remaining outstanding areas of testing.• Delegate approval of any further changes and the Statement of Accounts to the Chair of the Audit Committee, in consultation with the Responsible Financial Officer once the External audit is concluded.

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3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The production of the annual accounts is a statutory requirement for the Council.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice in Local Authority Accounting in the United Kingdom 2020/21, which is based on International Financial Reporting Standards (IFRS).
- Section 151 of the Local Government Act 1972 requires the Chief Finance Officer (as responsible officer) to ensure the proper administration of the Council's financial affairs.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The issues raised in this report are largely of a

4 Relevant background/chronology of key events:

- 4.1 The draft Statement of Accounts was issued by the Director of Council Management on 30 June 2021 and passed to the external auditors to enable them to undertake their audit work. With the Covid restrictions in place, Grant Thornton have undertaken their work remotely with contact through Teams and email.
- 4.2 Briefings were offered to the committee, and members, on the content of the draft Statement of Accounts during July 2021 and a briefing session was held on the evening of 27 July 2021 via Microsoft Teams.
- 4.3 A further update was provided at the 30 September 2021 meeting, along with a paper that set out the key updates we were expecting to make to the draft statement of account prior to finalisation.
- 4.4 The Financial Reporting Council requires that external auditors satisfy themselves that, in signing off financial statements, they provide safe opinions and satisfy themselves that, where there are estimates within the statements, figures used are reliable. For 2020/21, this has meant a continued focus on areas of high value and where there is an element of estimation. This has meant that there has been a considerable focus on the valuations of non-

current assets and of the net pension liability. There has also been considerable focus on cut off testing to ensure that, within levels of materiality, activity has been recorded in the correct year.

- 4.5 At the 30 September 2021 the Committee were given details of three significant proposed changes to the draft accounts. During the audit, the external auditors have identified areas where changes to the financial statements are required to be made in respect of entries within the accounts or disclosures.
- 4.6 Since that update one further adjustment has been made relating to the Net Pension Liability valuation. An undervaluation of 'hard to value' assets was identified by the West Midland Pension Fund (WMPF) during its audit. As the Council has a share of these assets and reports them as part of its Net Pension Liability, this has resulted in a £20.862m reduction in the Net Pension Liability disclosed in the Balance Sheet. This increases the Council's Net Worth by this amount and is recognised in the CIES as part of the remeasurement of the net defined benefit liability line.
- 4.7 The change affects the net pension liability, and Council's net assets and the (unusable) pension reserve. It is an accounting adjustment though and does not affect the Council's cash or usable reserves.
- 4.8 The Council would not have been expected to have known of this undervaluation at the time of preparing its draft accounts, and this has affected all councils that are part of the WMPF.
- 4.9 Details of the adjustments are set out in section 5 of this report and are included in Appendix C to the Audit Findings Report (AFR).
- 4.10 The AFR includes two potential (pending further audit work) unadjusted misstatements which the Council will not to adjust for:
 - i) Provision for Pension Guarantee – where the Council has given guarantees to suppliers to whom staff have transferred with TUPE rights, the guarantee is to compensate suppliers for any future increases in the employer contribution pension rates for employees who are members of the West Midlands Pension Fund. The Council has not adjusted for this matter raised by the auditor as it believes that no liability exists for such guarantees until a time when pension rates increase, and the suppliers deliver services in line with the contract in those relevant periods.
 - ii) The undervaluation described in Paragraph 4.6 relating to the WMPF assets was for the known amount. There is also a potential extrapolated amount of £3.843m which is not being adjusted for as it is an estimate and immaterial.

- 4.11 The external auditors have identified access control deficiencies within the Council's Ledger system, which resulted in greater testing to gain assurance on the Council's financial statements.
- 4.12 Some of these issues have existed from previous years and 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.
- 4.13 The more thorough work done by the IT audit team this year has highlighted a number of significant specific access issues. Although no actual instances of inappropriate use of that access have been identified, as confirmed by the auditors in the draft AFR, moving to a preventative measure of reducing access to the minimum required is a sensible precaution. Accordingly, the Council has already started work to remove this access from high risk accounts identified but will need time to complete this in a controlled manner. Progress will be reported to Audit Committee.
- 4.14 The Annual Governance Statement has had minor updates to reflect events since it was presented to Audit Committee in June 2021.
- 4.15 A Letter of Representation is required to be sent to the external auditor by the Chief Finance Officer, in her role as Section 151 Officer. This advises the auditor of any material matters which have occurred since the draft Statement of Accounts was signed and which might impact on the accounts and audit. *The letter is attached at Appendix 2.*

5 Audit Adjustments

- 5.1 There have been a small number of adjustments and disclosure changes to the accounts, which are summarised below –:
- An update to the accounting treatment for the Business Support COVID grant – which reduces gross expenditure and income and expenditure by £216m, but has no impact on cash, the net CIES or reserves
 - The removal of a note previously included (note 14 in the first draft of the statement of account) that provided additional disclosure on revenue from contracts with customers. There is no impact elsewhere in the statement of account resulting from this change;
 - Updating the presentation of our financial instruments disclosures. This also has no impact on the majority of the statement of account, and is related to disclosures only;
 - Adjustment to the Net Pension Liability as described in paragraph 4.6, and
 - A number of minor changes to text in the statement of account, and a small number of immaterial numerical changes to disclosures made.
- 5.2 None of the changes made to this final draft of the statement of account have affected cash or usable reserves available to the Council.

6 Next steps

- 6.1 As noted in the Audit Findings Report, the audit has a number of areas where work is still to be completed. Principally, this is with regards to testing of the valuation of the Councils property.
- 6.2 Should any items of a material nature, either qualitatively or quantitatively arise from the conclusion of audit work, which is expected during October 2021, the committee will be notified and a briefing paper on those items issued.
- 6.3 If none are noted, then the draft as presented will be finalised, signed and published
- 6.4 Finally, although the process this year has been a significant improvement on the prior year, with completion of the statement of accounts considerably more quickly, we anticipate further improvement will be required, and made next year. So a formal lessons learned process will be instigated to identify areas of potential improvement to the process for 2021/22.
- 6.5 Any major changes will be included in briefings to the committee, as part of the planning process for next year.

Signature:

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Rebecca Hellard, Director of Council Management

Appendices

Appendix 1: Audit Findings Report

Appendix 2: Letter of Representation to the External Auditor

Appendix 3: Annual Statement of Accounts