

Our ref:

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

22 March 2023

Birmingham City Council : Financial Statements for the year ended 31 March 2021

Dear Sir(s),

This representation letter is provided in connection with the audit of the financial statements of Birmingham City Council and its subsidiary undertakings, as listed in note 46 of the Council's financial statements, for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of property, plant and equipment, valuation of council dwellings, valuation of the equal pay provision and valuation of the net pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we 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. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

- xiv. The prior period adjustment disclosed in Note 37 to the financial statements is accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the group and Council means that, notwithstanding any intention to liquidate the group and Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.
- We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements
- xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

- xviii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

- xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- xxvii. We have disclosed to you all information relating to emerging Equal Pay issues and confirm that related disclosures in the financial statements (which include but are not restricted to contingent liabilities, provisions and Annual Governance Statement) are complete and accurate and we have considered the requirement of IAS10 and confirm that any post balance sheet events (either adjusting or non-adjusting) have been disclosed where necessary.

Annual Governance Statement

- xxviii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxix. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 28 March 2023.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

Impact of unadjusted misstatements

Detail	CIES £m	SoFP £m	Reason for not adjusting
Extrapolated error noted by the Pension Fund audit team			This is an extrapolation of an error at the pension fund.
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.			
If this further adjustment had been made, the Council's share would have been £3.8m:			
Dr Net pension assets		3.8	
Cr Return on assets (within Other Comprehensive Income)	(3.8)		
Occurrence of expenditure			Non-material extrapolated error
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.			
Testing of items in Q1-Q3 identified an issue in relation to expenditure that should have been recognised in 2019-20.			
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:			
Dr Creditors		5.9	
Cr Expenditure	(5.9)		

Detail	CIES £m	SoFP £m	Reason for not adjusting
Exclusion of land and buildings valued at less than £50,000			Non-material extrapolated error
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.			
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:			
Dr Property, Plant and Equipment			
Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income)		3.8	
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.	(3.8)		
Revalued land and buildings			Misstatements not material
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.			
Management have only adjusted for the non-trivial errors identified, which reduces the under-valuation of assets to £2.1m:			
Dr Property, Plant and Equipment		2.1	
Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income)	(2.1)		
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:			
Dr Property, Plant and Equipment		4.0	
Cr Movement taken to the Surplus/Deficit on Provision of Services	(2.1)		
Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income)	(1.9)		

Detail	CIES £m	SoFP £m	Reason for not adjusting
Completeness of expenditure			Non-material extrapolated errors
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:			
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.			
Dr Expenditure	5.7		
Cr Creditors		(5.7)	
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:			
Dr Expenditure	4.3		
Cr Creditors		(4.3)	
Adjusting event for the settlement of a legal case after the end of the reporting period			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.
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:			
Dr Expenditure	3.7		
Cr Provisions		(3.7)	

Detail	CIES £m	SoFP £m	Reason for not adjusting
Depreciation of infrastructure			Not material
<p>The Council has revisited and reviewed the useful economic lives (UEs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UEs going forward has been established. The impact of these revised UEs 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>			
Dr Property, Plant and Equipment (Infrastructure Assets)		1.8	
Cr Depreciation Charge	(1.8)		
Overall impact (Group)	(£7.7m)	£7.7m	