

Informing the audit risk assessment for Birmingham City Council 2020/21

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Purpose

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

Background

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

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

Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

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

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>There are a number of external factors that affect the delivery of council services, some of which are operational, rather than financial statement items, but may be included in your assessment of value for money. The key items include:</p> <ul style="list-style-type: none"> • The impact of COVID on the delivery of services and on the local economy • Continued work with BHL on the Highways PFI agreement • Planning for the 2022 common wealth games, and in particular closing the partner funding gap • Improving our governance arrangements with respect to Waste Services <p>Our material judgements and estimates are:</p> <ul style="list-style-type: none"> • Property valuations; • Pension valuations • Equal pay provision <p>The council uses experts to support our assessments of these estimates. However, a small change in some of the underlying assumptions could have a significant impact on the financial statements.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Birmingham City Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes, we continually review the appropriateness of our accounting policies, which are based on those included in the CIPFA code guidance. The audit committee of the council reviews and approves the accounting policies each year. There are no events that would give rise to us requiring to change any of the policies we adopted in the prior year.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Yes, the council does have financial instruments. There are not expected to be any new items in 2020/21 compared to those previously disclosed in note 40 of our 2019/20 financial statements. The policy for the use of financial instruments is as set out in, and approved annually in, the council financial plan.</p>

General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business?	None that aren't listed in the answer to question 1 above
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We will be doing an impairment review on our NCA as part of our close process, which will include obtaining information across our directorates. Currently, we do not expect any material impairments. However, the spread of Covid-19 and the impact on the economy does increase the level of un-certainty in asset values which will have to be taken into account in the financial statements.
6. Are you aware of any guarantee contracts?	We have a small number of guarantees – specifically where we guarantee the contributions for an ex employee's pension who has TUPE'd out of BCC.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	<p>We do a full review across all directorates of any un-asserted claims and potential losses as part of our close process. Currently, we expect to be considering disclosure of at least the following contingent liabilities, inter alia:</p> <ul style="list-style-type: none"> • Potential liabilities arising as a result of our accountable body roles • Housing benefit claims • Equal pay claims • Employee compensation claims • Letters of support • MMI settlement scheme • NHS trust section 47 business rates claims • Potential liabilities arising as a result of TUPE of staff, specifically in relation to their pensions • The outcome of employment tribunals in relation to liabilities connected to sleep in shifts.

General Enquiries of Management

Question	Management response
8. Other than in house solicitors, can you provide details of those solicitors utilised by Birmingham City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years.	The council uses a range of external solicitors to supplement internal provision, depending on caseload and the nature of the case under consideration. A full list of all solicitors used can be provided upon request.
9. Have any of Birmingham City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No items of fraud were significant enough to impact on the financial statements
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The council uses a wide range of advisors, a full list of which can be provided on request.

Fraud

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Has Birmingham City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Although there is ongoing risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include various pieces of work carried out by our internal audit team on high risk areas, and a dedicated counter fraud team to investigate allegations of fraud.</p> <p>The Counter Fraud team undertake reactive, and proactive investigations across the organisation, which includes higher risk areas such as social housing and council tax. The risk of material misstatement of the accounts due to un-detected Fraud is considered low.</p> <p>A full fraud risk assessment was undertaken in 2020, highlighting areas of proactive counter fraud work and taking into account previous areas of concern and areas which have been identified nationally by the CIPFA fraud and corruption tracker as representing either a high, or emerging fraud risk. Proactive work around has been tailored around those areas which have identified as being high risk. A schedule of data extract reports run from the main financial systems to identify potential fraud and error. This has formed the bulk of our work during the period of lockdown. Although we have been unable to continue with our programme of Fraud Awareness Training, we have recently procured an e-learning solution, which we are looking to rollout in 2021/22.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The CIPFA Fraud and corruption tracker continues to identify Council tax as the highest area of potential fraud risk. The two highest perceived areas of fraud risk are procurement and single person discount council tax fraud. We agree that these are the critical areas of focus and highest risk classes of accounts and transactions that may be subject to fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Birmingham City Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Internal audit log all cases of suspected fraud, error and procedural non-compliance. Since 1/4/2020 114 referrals have been received in the year to date. This does not include application fraud (Social Housing and Council Tax). The increase on last year is mainly due to the large number of referrals relating to COVID business support grants, of which there have been 35 to date.</p> <p>Details of all internal audit investigations are circulated each month to the relevant directors, who also receive the audit reports on the conclusion of an investigation. An annual Fraud report covering internal audits work on fraud is presented annually to the audit committee.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Birmingham City Council where fraud is more likely to occur?</p>	<p>As noted above, council tax fraud and in particular, single person discount fraud remain a specific fraud risk to the council, in line with the CIPFA report. In recent years the council has committed very significant resource to addressing this risk, including training of all adult social care managers. Internal audit have also worked with corporate procurement services to address the perceived risk in relation to serious and organised crime accessing public sector contracts.</p> <p>Further details on the work performed by our internal audit team, and our counter fraud team in these areas can be provided on request.</p>
<p>5. What processes does Birmingham City Council have in place to identify and respond to risks of fraud?</p>	<p>The council has an anti fraud and corruption policy and fraud response plan, which set out a zero tolerance stance to fraud. This is supported by the financial regulations which require all suspicions of financial irregularity to be reported to internal audit.</p> <p>Regular data matching exercises are undertaken through internal audits data warehouse facility and proactive data analytical routines are run on a periodic basis to highlight exceptions to data that may indicate fraud or error.</p> <p>Internal audit participates in the CIPFA fraud tracker, and reviews the results to inform its risk assessment and planning.</p> <p>We publish a number of fraud related articles, including a bi annual fraud spotlight, with similar material distributed to all our schools and the Adult social care team. If there is a particular concern we can distribute specific focussed advice through the Schools noticeboard. Our Policies standards and procedures guidelines contain a chapter on fraud and we can provide bespoke training on specific cases as required.</p> <p>We have a number of procedures in place for reporting fraud, including an inline referral form, a hotline and a whistle blowing process. All fraud referrals are risk assessed. The findings of internal audit work on fraud are reported with appropriate disciplinary and or systems related recommendations. In addition, internal audit will refer cases to the police where there is firm evidence of criminality.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Birmingham City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective, where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>There are sufficient internal controls in the systems to help prevent, deter and detect fraud. Compliance with the controls is monitored by management and tested by internal audit. Data analytics are used to proactively check for compliance and highlight any exceptions.</p> <p>Our financial reporting processes include numerous controls – not least of which are the layers of checking, and review that are performed through submission and finalisation of our reporting. Budget managers are responsible for managing their budgets. City finance staff challenge assumptions and input the forecasts and these staff have a reporting line to the Finance director. Directors are ultimately responsible for their budgets and sign off these at a directorate level. All corporate and capital monitoring reports undergo carious levels of quality control before publication and public reporting.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No.</p>

Fraud risk assessment

Question	Management response
<p>8. How does Birmingham City Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The staff code of conduct forms part of the contract of employment. The code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow. There are specific guidelines for dealing with employee fraud relating to benefits, social housing, council tax and blue badges. Business practices are laid out in the policies and standards procedures and guidelines database.</p> <p>There is a requirement in the financial regulations that all staff report suspected financial irregularities, which is included in the staff induction process. There is a whistleblowing policy in place, which includes schools, and a dedicated whistleblowing reporting mailbox. All disclosures are administered through a senior member of staff in legal services. All fraud awareness literature, including that available on the employee portal includes an email address and telephone number for fraud reporting. An online referral form is in place on the employee portal and on Birmingham.gov.uk. In addition, fraud spotlight deals with general fraud issues and encourages staff to be alert to fraud. No significant issues have been reported in the year.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Those involved in the procurement of goods and services and managing contracts, those involved in the planning process and those involved in the processing of high value transactions.</p> <p>There are adequate internal controls within the systems to help prevent, deter and detect fraud. Compliance with the controls is monitored by management as part of the day to day governance arrangements and is reviewed by internal audit as part of delivering its audit plan.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Members and senior offices are required to make full disclosure of any relationship that impact on their roles. Members are required to declare any relevant interests at council and committee meetings. Reports provided through the NFI are being used by internal audit to help identify any undeclared relationships, along with proactive exercises analysing data from the main financial systems.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal audit provides the audit committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the actions taken in response. The committee approves the anti fraud and corruption policy, fraud response plan and prosecution and sanctions policies. The committee receives an annual report on fraud which includes updates on other initiatives such as NFI.</p> <p>The audit committee will seek an explanation from management as it see fit, where it is felt that failings have led to either instances of fraud and error, or an increase in the risk of fraud and error.</p> <p>In our Annual Fraud Report we have highlighted the problem of salary overpayments and the Audit Committee have sought assurance from management that measures are being taken to reduce the level of overpayments. In last year's Annual Fraud Report we flagged up the potential impact of the COVID restrictions on our ability to investigate tenancy fraud, and the impact that this would have in recovering social housing properties. In response we have re-prioritised our resources to investigate fraudulent housing applications and redeployed staff to investigate COVID business support grant frauds.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Whistleblowing allegations are reported to legal services who will determine whether matters are to be treated as protected disclosures as defined under the BCC whistleblowing policy. Allegations of fraud and corruption will invariably be referred to internal audit to investigate. No significant issues have been reported during the last financial year.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Birmingham City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>This is dealt with in the annual governance statement.</p> <p>All reports to committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for decision reporting.</p> <p>The monitoring officer is responsible for ensuring that the council is compliant with laws and regulations. The Council's constitution notes that these responsibilities include:</p> <ul style="list-style-type: none"> • Report on contraventions or likely contraventions of any enactment or rule of law • Report on any maladministration or injustice where Ombudsman has carried out an investigation • Receive copies of whistle blowing allegations of misconduct • Investigate and report any misconduct in compliance with regulations • Advice on vires issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members <p>The monitoring officer has access to all council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific issue, they would get involved at an early stage, including vetting reports for legal issues. Senior lawyers in legal services undertake corporate governance reviews of reports to Cabinet and Cabinet members.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the annual governance statement process that is approved separately by the audit committee.</p> <p>Regular updates of the Council's risk register are considered by CMT and the Audit committee. The financial and legal implications are set out in the committee reports.</p> <p>Reassurance to the Resources Overview and Scrutiny committee would be through the reports to the committee where they were appropriate.</p>

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	No – all high risk matters are included in our high risk case register, which also has a financial impact limit on it. This is reviewed every two weeks to ensure it is up to date. No items have been noted that are related to non compliance with laws and regs.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None that have not already been included in our out turn or forecasts. There are always ongoing cases and claims against BCC which are all individually assessed by our legal team – full details of all such activity can be provided as part of the audit.
5. What arrangements does Birmingham City Council have in place to identify, evaluate and account for litigation or claims?	<p>Claims involving the Highest risk to the council are regularly monitored by the legal and governance management team and reported to the council corporate management team.</p> <p>Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities depending on the degree of uncertainty.</p>
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Related Parties

Matters in relation to Related Parties

Birmingham City Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Birmingham City Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Birmingham City Council whether Birmingham City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>The Council, by nature of its activities, has a significant list of related parties with which it transacts. As an audit planning tool, you can use note 49 from the 19/20 accounts as a good starting point for these bodies, and we will inform you if there are any material changes to this list before the audit starts.</p>
<p>2. What controls does Birmingham City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and Senior Officers are required to complete an annual register of interests. Members and offices are also required to declare any interests relating to matters to be discussed in each meeting.</p> <p>The council nominates representatives to organisations which are approved via cabinet and other committees. Reports on representation on organisations boards are reported to the cabinet committee – Group company Governance (CC-GCG).</p> <p>The Council also has relationships with organisations where it is a shareholder or member of that organisation. These relationships are reported to the CC-GCG on a regular basis.</p>

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	<p>As reported in our annual governance statement, members receive regular training, and have access to online content to support the appropriate governance of their role and their compliance with laws, regulations and the requirements of the role. This includes training on related party transactions, and the expectations of their role in ensuring only appropriate transactions are undertaken, and that all are approved in line with BCC requirements, and reported on.</p>
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	<p>All transactions have to follow standard BCC procurement guidelines, which include a number of key controls at each step in the transaction.</p> <p>Related party transactions are captured, and reported on in full.</p> <p>The controls above are in place for <u>all</u> related party transactions, regardless of whether they are inside, or outside the normal course of business.</p>

Accounting estimates

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The three main area of accounting estimates related to</p> <ul style="list-style-type: none"> • Property valuations • Pension valuations; and • The equal pay provision <p>There are no changes in our approach to calculating theses estimates over the prior year approach.</p>
<p>2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>All critical areas of accounting judgement are flagged to the service finance team, and central accounts team as part of our financial close planning, and ongoing financial management throughout the year.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>The council manages its process of estimates through:</p> <ul style="list-style-type: none"> • Embedding finance business partners in each of our directorates to work with the services to identify, support and monitor all estimates • Using an experienced, central accounts team including technical accounting expertise in order to support the wider finance team where necessary; and • Disclosing all areas of material estimate and uncertainty in our accounts
<p>4. How does management review the outcomes of previous accounting estimates?</p>	<p>Each year, all significant accounting estimates are reviewed and considered as part of our process to close the books. Where there has been a material deviation in the estimate based on events subsequent to the previous filing, we will consider whether an opening balance sheet adjustment is required based on the requirements of accounting standards, and the need for transparency in our financial reporting.</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>No</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	At the moment, the council considers that its central accounts / finance team has sufficient knowledge and experience to oversee the process of managing accounting estimates. In the course of that management, all areas where additional expertise is required are identified. Where external SME input is required, like in the case of valuations, appropriate, qualified professionals are called up to support the team with their judgement.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Where we use SMEs, we consider the nature of their qualifications and the extent of their expertise. All reports provided are reviewed, and checked for consistency and accuracy, and a significant exercise is undertaken, in particular in the property estimates, to check for outliers and anomalies that might indicate wider systemic error.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Regular monitoring reports are provided to Cabinet, and are subject to further review as necessary. Reports on specific areas, such as the highways PFI, equal pay or the Paradise re-development are all considered directly by the audit committee.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> • Management's process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements. 	We have a tiered approach to review and management oversight of accounting estimates. Detailed work is carried out in the service finance team, and the central accounts team. Where there are significant estimates, these are discussed with the s151 officer, who oversees the subsequent work to calculate and disclose outcomes. The Audit committee is briefed on all such matters regularly, and oversees the outcomes that management arrive at, and the presentation and publication of the financial statements.
10. Is management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None other than noted above.

Accounting Estimates - General Enquiries of Management

Question	Management response
11. Are the management arrangements for the accounting estimates reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	See answer to 8 above.



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Appendix – Accounting Estimates

Property, plant, and equipment (other land and buildings, surplus assets and council dwellings) valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>Asset valuations by their nature include a degree of uncertainty. The impact of Covid-19 may add an increased level of uncertainty in our estimates this year.</p> <p>The key mitigations that we have in place are 1) Estimates provided by valuers in line with RICS requirements; and 2) a process of review and challenge, particularly focussed on outliers.</p> <p>Disclosures will be provided in the accounts that set out the basis of valuation, the uncertainties included within that valuation and the judgements made in arriving at them.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Management select the approach based on developing an understanding of the risk presented by the estimate, and its potential to introduce material error into the accounts. Doing so, management take into account past errors identified, the views of our expert valuers, development of the sensitivity of the result to fluctuations in assumptions and through the process of review and challenge by our final accounts team.</p> <p>The OLB balance is split into a number of different “buckets” of assets of equivalent nature, and a valuation approach applied that is applicable to the asset.</p> <p>A five year rolling revaluation programme, supplemented by annual reviews of significant changes in market value is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years in line with guidance from MHCLG. In intervening years, a desktop review of the valuation is carried out. All assets are carried at current value.</p> <p>No changes are expected to be made with respect to the models, or the methods used in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Management rely on the expert advice of the RICS qualified valuers in providing appropriate assumptions. These are then reviewed, with outliers challenged and adjusted if necessary through a rigorous internal review process.</p> <p>No changes are expected to be made to the major assumptions applied in 2020/21</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The source data is based on existing books and records, alongside any required other sources of information provided by, or sense checked by our valuers – like the indices applied to adjust assets where necessary. The accuracy /completeness of the books and records is controlled through analytical review of the final results and identification of anomalies.</p>

	No changes are expected to be made to the major sources of data used in 2020/21
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	<p>Yes, the council's own valuer has specialist skills, they are a member of the Royal Institution of chartered surveyors, and all specialist input comes from RICS qualified valuers, which may include specific challenge to assumptions or individual valuations based on any significant fluctuations or outliers identified.</p> <p>Any external support is procured in line with the BCC procurement policy, which is available on request and through doing so we ensure that all external support has the specialised skills and knowledge required for the task.</p>
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	<p>The valuer is issued with instructions as to the basis of valuation in line with the CIPFA code of practice and RICS guidance. The internal valuations may be supplemented by a number of valuations carried out by external valuers including for any specialist assets – in certain circumstances, there are peer reviews performed within the valuer's team too, where required.</p> <p>All resultant valuations are then reviewed internally, through a specific close processes implemented by the final accounts team, supplemented by review and challenge if required, by an external valuer. A process of identifications of outliers, comparison to prior year, and sense check for reasonableness is also carried out by the final accounts team.</p>
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	<p>Management consider the estimate uncertainty by developing a sensitivity analysis against key assumptions, allow the extent to which uncertainty in any of these assumptions may result in material error in the accounts. The uncertainty is further reduced by ensuring that valuations are done as close to, or on 31 March as possible.</p> <p>This uncertainty is addressed through the allocation of additional, or specialist resource, or further review steps, including increasing sampling, potentially, if necessary, to reduce any extrapolation error.</p>

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?

A simple sensitivity analysis will be completed against key assumptions, and used in determining any further review and challenge steps during the process.

Net defined benefit pension liability valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No new risks were identified.</p> <p>By their nature, a small change in one of the key assumptions, like the discount rate, could materially affect a number of the outcomes from this estimation.</p> <p>The main way that BCC addresses the risk of material error arising from uncertainties in the pension valuation is through engaging a qualified actuary, Barnet Waddingham, to produce a detailed report in their role as actuary to the West Midlands Pension fund.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>As above, the main method is the utilisation of a specialist actuary.</p> <p>The final accounts team will also review all assumptions applied, and resulting impact on the accounts, including through the sensitivity analysis performed by the actuary, and challenge any areas of significant change or inconsistency with the prior year.</p> <p>There is no change expected to be made to these methods or the model in 2020/21</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Management rely on the assumptions provided by the qualified actuary.</p> <p>We have not yet had sight of the anticipated assumptions to be applied across the calculation of the estimate – but we have been in regular dialogue with the actuary around the timetable to provide their output, and ensure that it meets our planned close timetable.</p> <p>We have not been made aware of any significant changes to the assumptions that the actuary is expecting to apply, or the model being used. However, as noted above, particularly given the length of the liabilities, a very small change in specific assumptions could have a material impact on the size of the estimate.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The main source data is employee data, which is taken from our HR and finance systems. The final accounts team extract the data in a specific format, in line with all prior year years and provide it to the actuary.</p> <p>A review is undertaken within the final accounts team of the data extracted this year, compared to the prior year, to highlight any potential outliers or unusual events – if any are identified, they are challenged prior to submission.</p> <p>There are no changes expected in the sources of data being used for this year's process.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Yes, a qualified actuary whose services are procured in line with BCC procurement policies.</p>

6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The output of the process is reviewed by the final accounts team, to ensure that they are in line with standard sector parameters, our expectations and not materially different from prior years. Where a material change is identified, the actuary is challenged to support it.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The estimation uncertainty is primarily assessed by the qualified actuary. They also provide a sensitivity analysis that allows us to consider the quantum of the estimation uncertainty, and where the point estimate falls within that spectrum of potential results.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	As above, a sensitivity analysis is provided by the actuary. Material changes in key outputs are also reviewed, and challenged as required.

Equal Pay provision estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No specific risks identified this year that would affect the material accuracy of the provision.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Estimates are based on a case by case evaluation of the liability against a framework agreement, following legal evaluation of the probability of success of a particular claim. This approach has been used for several years; no changes have been made for 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The assumptions are applied on a case by case basis as set out in the answer to question 2. No changes were made to assumptions for the estimation in 2020/21 with a consistent approach being applied to that of previous years.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Source data is obtained from HR, which is predominantly a current staffing list (updated to reflect current staffing profile in 2020/21). The Data on specific cases is provided by the Equal Pay Unit, which is extracted from a database of cases lodged, and progress is maintained by the EPU. BCC has developed a central repository for all Equal Pay claims, called Caprelus. There are no changes to the data source.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Barrister/QC and internal legal advice have been sought on the probability of success for Equal Pay claims. This is part of the standard approach in relation to Equal Pay liabilities and estimation. Services of the barrister procured in line with standard BCC procurement policy.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	A management review of the overall provision is undertaken, which is documented in our working papers, provided during the audit. Additionally, there is a reconciliation undertaken to identify changes in the estimates compared to the prior year. Any significant change in value is investigated to identify the reason.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes
8. Were any changes made to the key control activities this year? If so please provide details.	No

9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Sensitivity analysis undertaken to determine any areas of material uncertainty
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Sensitivity analysis undertaken on the variable elements that may affect the estimates. This is provided as part of the annual working papers.

Depreciation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The only two risks identified in relation to the depreciation estimate are the UEL of assets, and the underlying valuation. Both are assessed in line with the approach outlined above, and performed by professional valuers, and then reviewed for consistency by the final accounts team. A qualified RICs valuer is used to identify the most appropriate UEL, and valuation, and these, alongside the BCC depreciation policy derives the depreciation.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The method used in calculating depreciation is to do so in line with the BCC accounting policies, which have not changed this year. We will charge depreciation on a straight line basis over the remaining UEL of the asset. Depreciation is not charged in the year of acquisition, but a charged in full in the year of disposal. There are a number of potential methods for calculating and charging depreciation. The council has determined that doing so on a straight line basis over the UEL is the most appropriate method. There are no changes proposed to this approach in the current year.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	For valuations and UEL, see notes above re the approach to valuing assets. No changes are expected to be made to these assumptions in the current year.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The source data is from the Council's fixed asset registers, which maintain records for all assets held. There are no changes expected to be made to the sources of data used in the current year.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, see above for notes on approach to valuation.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	In addition to the approaches outlined above in relation to the valuation of assets, the final accounts team also perform simple analytical reviews on depreciation balances charged, and investigate any usual, or outlying charges.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No

9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	See above for approach to valuation and UEL.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See above for approach to valuation and UEL.

Expected credit losses and impairment allowances estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>The impact of COVID 19 is considered to be a specific risk in the likelihood of expected credit losses.</p> <p>These have been addressed through the service teams reviewing each of their debtor position, with regards to the repayment profile of invoices in the year, their expectation of likely recovery and any specific, expected bad debt.</p> <p>This has then been used to inform their judgement as to the expected level of credit losses.</p>
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	<p>The method applied is consistent with the prior year, utilising service team specific knowledge of the debtor balances they are managing and applying a provisioning methodology in line with IFRS9.</p> <p>We are currently reviewing the approach to arriving at the Council bad debt provision but are not expecting a material change in approach or method this year at this point.</p>
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	<p>The key assumption is the level of expected credit loss against any individual debtor. The service team staff apply their knowledge of each situation and apply that knowledge to arrive at an overall level of expected credit loss.</p> <p>There are no changes to these assumptions expected in the current year.</p>
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	<p>The principal source of data used is the underlying ledgers of BCC. No change is expected to the source of this data in the current year.</p>
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	<p>Finance staff consult service staff on the front line where appropriate to understand the debtors and likelihood of repayment – this knowledge of the credit risk in each debtor is the key skill required. Training has been delivered where required on the application of IFRS 9, but no specialist resources have been consulted.</p>
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	<p>The overall level of provision is monitored by the final accounts team – it is compared with levels provided in the prior year, and any significant changes in value or % are highlighted and investigated.</p>
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	<p>Yes.</p>
8. Were any changes made to the key control activities this year? If so please provide details.	<p>No.</p>

<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>A very simple sensitivity analysis is performed on the outcome of the bad debt provision calculation, which is used to put the size of the estimation uncertainty into context with regards to the size of the balance, and its materiality to the accounts.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>See above, a simple sensitivity analysis is performed as part of the review completed by the final accounts team.</p>