

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 18 OCTOBER 2022 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE,
BIRMINGHAM, B1 1BB

A G E N D A

1 NOTICE OF RECORDING/WEBCAST

The Chair to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's meeting You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 APOLOGIES

To receive any apologies.

3 DECLARATIONS OF INTERESTS

Members are reminded that they must declare all relevant pecuniary and non pecuniary interests arising from any business to be discussed at this meeting. If a disclosable pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.

4 EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 100I of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.

b) If so, to formally pass the following resolution:-

RESOLVED – That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

5 - 16

5 **MINUTES – AUDIT COMMITTEE 28 SEPTEMBER 2022**

To confirm and sign the minutes of the last meeting of the Committee held 28 September 2022.

6 **ASSURANCE SESSION – CABINET MEMBER DIGITAL, CULTURE, HERITAGE & TOURISM PORTFOLIO**

(45 minutes allocated) (1405 – 1450)

Verbal discussion

The Cabinet Member of Digital, Culture, Heritage & Tourism with the Assistant Director, Digital & Customer Services, Head of Community Partnerships, Commonwealth Games, Head of Library Services and Head of Cultural Development & Tourism

17 - 32

7 **BIRMINGHAM AUDIT ANNUAL FRAUD REPORT 2021/22**

(15 minutes allocated) (1450 – 1505)

Report of the Assistant Director Audit and Risk Management

33 - 80

8 **INFORMING THE AUDIT RISK ASSESSMENT 2021/22**

(10 minutes allocated) (1505 – 1515)

Report of the External Auditors

81 - 84

9 **EQUAL PAY UPDATE**

(15 minutes allocated) (1515 – 1530)

Report of the City Solicitor & Monitoring Officer

85 - 88

10 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

11 **DATE OF NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 22 November 2022 at 1400 hours in Committee Room 6, Council House.

12 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chair are matters of urgency.

13 **AUTHORITY TO CHAIR AND OFFICERS**

Chair to move:-

'In an urgent situation between meetings, the Chair jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 28 SEPTEMBER 2022
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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON
WEDNESDAY, 28 SEPTEMBER 2022 AT 1400 HOURS IN COMMITTEE
ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

PRESENT:-

Councillor Paul Tilsley in the Chair;

Councillors Shabrana Hussain, Amir Khan, Miranda Perks and Shafique Shah

NOTICE OF RECORDING/WEBCAST

- 491 The Chair advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.

At 1400 hours, Councillor Shafique Shah left the room.

APOLOGIES

- 492 Apologies were submitted on behalf of Councillor Fred Grindrod and Councillor Paul Tilsley (Deputy Chair) would Chair the meeting.

Apologies were submitted on behalf of Councillor Meirion Jenkins for his inability to attend the meeting.

Councillor Bruce Lines submitted apologies via email but these were not announced at the meeting however, noted in the minutes of the meeting as a record.

DECLARATIONS OF INTEREST

- 493 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this

meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

At this juncture, Councillor Tilsley referred to the minutes of 30 June. He was noted as the non-executive director and representative of Birmingham Airport and Chairman of the Audit Committee. Councillor Tilsley notified members he had stepped down as the Chairman of the Audit Committee following the completion of 9 statutory years in this position.

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

Members agreed there were no items on the agenda that contained exempt information.

Upon consideration, it was:

494

RESOLVED

That in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

MINUTES – AUDIT COMMITTEE – 26 APRIL, 30 MAY AND 30 JUNE 2022 AND MATTERS ARISING

495

That the public minutes of the last three meetings, 26 April, 30 May and 30 June having been circulated, were agreed by the Committee.

At 1403 hours, Councillor Shafique Shah entered the room.

BIRMINGHAM CITY COUNCIL'S COMPLAINTS FOLLOW-UP

The Chief Executive attended the meeting accompanied by Peter Bishop, Director of Digital & Customer Services and Paul Clarke, Assistant Director, Programmes, Performance and Improvement.

(See document No.1)

An in-depth presentation was provided to the Committee with the use of slides. This consisted of an overview to operating as one organisation, improvements with regard to joined-up service delivery and corporate working. The presentation consisted of a summary of the new Corporate Plan 2022-2026 for Birmingham City Council; Strengthened Performance management arrangements; A Corporate Leadership Team (CLT); A corporate approach to customer complaints handling; Examples of joined up service improvement and joined up service planning and delivery was shared with the Committee.

At 1411 hours, Councillor Amar Khan entered the room.

In reply to a questions raised members of the committee, the following responses were made by the Chief Executive and officers;

• **Examples of joined up service improvement;**

- (i) **Assisted collections** – There was more focus on where customer experience was wrong on repeated occasions to ensure the cycle was broken and lessons were learnt for continuous improvement.
- (ii) **Housing applications** - In September 2021, there was a significant backlog of applications approaching 15,000. This was impacting people's ability to join the housing register and this was now operating at less than 6000 applications.
- (iii) **Cross Directorate approach in wards** – services were being brought together from across the Council to make a positive impact for the residents of an area.

Employees were being retrained on basic Customer Service via the Customer Service Programme to ensure the quality of service was good and there was improvement across the board. These improvements were being noticed; however, it was recognised there were systemic issues that had to be rectified e.g., the need for more houses in the City.

In response to Councillor Hussain's query around increasing elected members awareness of where services belong (i.e., who is who and where these should be signposted), it was highlighted the process of communication should be easier to channel. Avenues had to be explored of how to get residents to communicate to each other to tackle issues within their area. This was the role of CLT to ensure a solution to the issues were found. CLT undertook visits around the city to see the challenges the residents must respond to. CLT had to understand what the challenges are to ensure the right response was in place.

At 1437 hours, Councillor Shafique Shah left the room.

Councillor Perks queried if there were direct routes of accountability on issues within each Directorate – a clear chain of command. Sue Harrison, Director of

Children Services gave an overview of how complaints were dealt within her Directorate and there was a need for a cohesive system across the board.

Councillor Tilsley referred to the £1.2 million placed to service improvement (which was because of the notice of motion moved by Councillor Tilsley and the late Councillor Neil Eustace) as the system was not fit for purpose. For Complaints, it was suggested there would be one single entry point for complaints however, there were now nine entry points, and a simple solution was required as there were numerous issues. Sensitive issues would be shared with officers directly rather than through a pool of complaints. It was crucial to get complaints dealt with first time to avoid the bureaucratic chain of communications. A decision was made to have nine entry points and all relevant dashboards would be published for members to view.

Upon consideration, it was:

RESOLVED:-

- 496 That the Audit Committee noted the presentation and updates received from the Chief Executive on Birmingham City Council's Complaints follow-up.
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ASSURANCE SESSION - CABINET MEMBER FOR CHILDREN, YOUNG PEOPLE & FAMILIES PORTFOLIO

The Cabinet Member for Children, Young People & Families Portfolio attended the meeting accompanied by Sue Harrison, Director of Children Services and John Elsegood, Head of Finance - Service Innovation.

(See document No.2)

An in-depth presentation was given with the use of slides. An overview was given around the portfolio responsibilities. It was noted Children Services was now placed back into one Portfolio rather than two with the Director of Children Services leading the area. Additional areas on the update on External Auditors' recommendations; Children's Travel – SEND and Extract from Directorate Assurance statement - SEND sufficiency was also shared.

It was noted, the External Auditors report on Children's Travel highlighted the service had not achieved and significant improvement was required. Significant progress had been made this year to mitigate the issues that were identified at the start of the previous two years.

Following the discussion that ensued and in response to questions from Members the following points were made:-

In reply to a questions raised by the Councillor Perks on what the type of complaints were still being raised; plan ahead of the summer term, to avoid complaints the communications need to go out earlier, the Head of Finance -

Service Innovation shared that complaints were mainly raised when changes had occurred i.e. rerouting of journeys and changes for the child (different guides etc); or when a parent has found out late that a route was changed or where there was a breakdown of communication. The aim to keep consistency however at times things changed last minute. This is a door-to-door system not a bus route therefore any change impacts the rest of the children on the journey. Some of the children have one to one travel arrangements and others are in groups.

It is crucial to work with the schools in early June to avoid these issues. A meet and greet was not offered to all the children therefore there were a number of challenges on this.

In reply to questions raised by Councillor Hussain around DBS checks going inhouse; if some of the complaints go straight to the Chief Executive and what was the longest journey for some of the children, it was noted the DBS checks programme had been initiated and would conclude by the end of October. This complaint was channelled via twitter. A programme of monitoring social media was in place to pick issues up earlier. There were some travel journeys which were over an hour as the child's school was out of the patch (geography and distance). The aim was to minimise the time for the child spent in the vehicle.

The Chair referred to External Auditors report which had identified Home to School as one of the primary risks and SEND services. The External Auditors would be looking at the improvements that have been made. The Audit Committee welcomed receiving updates next year.

The Chair sought assurances from the Cabinet Member around the Safeguarding Corporate Parenting aspect of the portfolio and steps in place to ensure this would not happen again and the decisions around Hakeem Hussain's case. The Cabinet Member gave a summary to what was involved i.e. a whole range of agencies were identified at fault in the serious case review. Much of the learning had already taken place because agencies reflect on their practice and see what they are able to change. The partnership working had been exceptional, and every aspect of the case was distressing including the decision made. A wholesale review on asthma protocols had been communicated across the range of organisations. There had been a real commitment to working together to reduce the number of serious instances and to ensure risks and harm were reduced. Ofsted reports indicate the improvements had been made since 2017. A Neglect Strategy was in place across the partnership.

Assurances were provided by both the Cabinet Member and Director for Children Services that learning had been taken seriously. The full report was available which indicated various organisations Hakeem had been in contact with at different stages. The learning had been profound across Education and Birmingham Children's Trust.

The Cabinet Member for Children, Young People and Families thanked Penny Thompson, Chair of the Safeguarding Children's Board Partnership who led on the report – this was a collective responsibility across organisations to ensure incidents such as this do not occur again.

The Cabinet Member gave a summary on the SEND Update. The recommendations made by the Commissioner had been accepted by the Council and the action plan was now in place.

In response to Councillor Perks query around EHC plans and financial risks to deliver the provision, it was noted some children who had complex needs were on long waiting lists, support would be placed in their schools to avoid long wait on waiting lists. Mainstream schools may have additional teaching assistants. A number of parents have taken children out of school, therefore home tuition had been put into place. Pilot work was taking place in Castle Vale for children in nursery schools and a diagnosis was provided without going onto a waiting list. A dedicated placements team was now in place to work earlier with families.

Headteachers were working with the Director of Children's Service to develop better inclusion facilities so that provisions in local schools were made therefore no need to go outside of a special school. This investment would be captured in the Sufficiency Strategy.

In response to Councillor Hussain's query the EHC Plan and the process if a parent does not agree with what was indicated on there, Members were notified there was an appeals process and details around this was shared.

Upon consideration, it was:

497

RESOLVED:-

That the Audit Committee noted the presentation and updates received on the Cabinet Member for Children, Young People and Families.

At this juncture, the Chair rearranged the agenda to allow item 13 – External Auditors update to be discussed. This request had been made by Jon Roberts, Grant Thornton.

At 1550 hours, Councillor Amar Khan left the room.

EXTERNAL AUDITORS UPDATE

The following report of the External Auditors was submitted: -

(See document No.3)

Jon Roberts, Grant Thornton, External Auditors gave his apologies as he had to leave this meeting. An overview of the report to was provided by Nicola Coombe, Grant Thornton.

The External Auditors were specifically required to consider the Council's arrangements in relation to three specified criteria; financial sustainability; governance and how it improves its economy, efficiency, and effectiveness. The External Auditors would follow up on last year's recommendations as a matter of course. There were some topics that were appropriate to keep on the radar for continued deep dives as well as the follow up of prior year recommendations including home to school; highways, PFI contract arrangements etc. There was a potential risk in relation to the legacy of the Commonwealth Games and housing issue.

The Chair noted the Commonwealth Games were very successful and were delivered on time. A review of costings against budget would be looked upon by the External Auditors.

The Chair referred to the letter provided by the External Auditors on 13th September on delays with the Audit and requested for further details on this. In response, Nicola Coombe gave a summary to the deadlines indicated in the Annual Auditors Reports. The Council's financial statements deadline for the publication of the accounts is the end of November. The February date is for the backstops that the National Audit Office gives. This is a three-month window ahead of when the accounts are to be signed.

The 2021 Annual Auditors Report was still open and pending sign off. A finalised version would be issued once the accounts had been signed.

Upon consideration, it was:

498

RESOLVED:-

That the Audit Committee noted the External Auditors Update.

RISK MANAGEMENT UPDATE

The following report of the Assistant Director Audit and Risk Management was submitted: -

(See document No.4)

The Assistant Director, Audit & Risk Management, made introductory comments relating to the report and responded to questions from Members.

Concerns were raised around interest rates and treasury risks. Treasury Management Strategy will be shared at a future meeting.

At 1607 hours, Councillor Amar Khan entered the room.

Upon consideration, it was:

499

RESOLVED:-

The Audit Committee Members:

- (i) Noted the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT).
- (ii) Reviewed the strategic risks and assessed whether further explanation / information is required from risk owners in order to satisfy itself that the Risk Management Framework had been consistently applied.

At this juncture, the Chair welcomed Janie Berry to her first Audit Committee. Janie had been appointed as new City Solicitor & Monitoring Officer for BCC. On behalf of the Committee welcome Janie and thanked Satinder Sahota for all his contributions in his interim role to the Committee.

PROGRESS ON NON-COMPLIANCE WITH THE CONSTITUTION

The following report of the City Solicitor & Monitoring Officer was submitted: -

(See document No.5)

The report had been prepared by the predecessor (Satinder Sahota). A summary of the report was shared with Committee Members.

The Assistant Director, Audit & Risk Management referred to the non-conformity as noted by Internal Audit along with specific mitigations. These were all at a point in time. Details around specific non-conformities were shared to Members.

The Assistant Director, Audit & Risk Management assured the Committee internal audit would do a follow up on each area depending on its severity and evidence this.

RESOLVED:-

500

The Audit Committee Members noted the content of the progress on non-compliance with the Constitution report.

CIFPA FINANCIAL MANAGEMENT CODE SELF-ASSESSMENT

The following report of the Director of Council Management was submitted:-

(See document No.6)

Chris Tideswell, CIPFA shared a presentation on the Financial Management Code; Assessing Compliance Self-Assessment; Conclusions on the approach adopted by BCC; Six key principles of good FM; the FM Code Principles and Standards and the five key signals of organisational financial stress.

The Chair referred to the gaps in the savings plan and overspends. There were concerns around general financial environment therefore the planning horizons played a critical part of the immediate and long-term financial plan.

Upon consideration, it was:

501

RESOLVED:-

The Audit Committee Members noted:

- (i) The requirements of the CIPFA Financial Management Code.
- (ii) The results of the self-assessment and action to be taken.
- (iii) That this was the second self-assessment and that the self Assessment would continue to be refreshed annually and reported to Elected Members.

ANNUAL GOVERNANCE STATEMENT 2021/22

The following report of the Director of Council Management was submitted:-

(See document No.7)

The Assistant Director, Audit & Risk Management, made introductory comments relating to the report. The final document would be shared closer to when the accounts were signed off.

At this juncture, the City Solicitor & Monitoring Officer requested the Committee for an opportunity to review the Annual Governance Statement as she was newly appointed. The City Solicitor & Monitoring Officer would like to contribute to the Annual Governance Statement.

Upon consideration, it was:

502

RESOLVED:-

The Audit Committee Members:

- (i) Approved the Annual Governance Statement that would be included in the 2021/22 Statement of Accounts.
- (ii) Agreed that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee during the year.

DRAFT STATEMENT OF ACCOUNTS 2021/22 PROCESS AND TIMINGS BRIEFING

The following report of the Director of Council Management was submitted:-

(See document No.8)

In addition to the report shared with Committee Members, further details were shared via a presentation. The accounts were published on the website. A summary of key areas for attention were highlighted.

A briefing will be arranged for Members of the Committee to look at the accounts in detail and for an opportunity for Members to query further.

At 1648 hours, Councillor Amar Khan left the room.

Upon consideration, it was:

503

RESOLVED:-

The Audit Committee Members:

- (i) Noted the legislative requirements and proposed review, publication, and approvals timetable for both the draft and audited Statement of Accounts.
- (ii) Noted the proposed briefings offered to the Committee.

SCHEDULE OF OUTSTANDING MINUTES

The following Schedule of Outstanding Minutes was submitted:-

(See document No. 9)

The Committee noted that the following outstanding minutes 377 (iii), 412, 413; 414; 443; 444; (old ref: 3 but renumbered to 478) and (old ref: 4 but renumbered to 484) were completed and discharged:

The outstanding actions related to minutes 377 (ii) and 442 would be highlighted further so that responses could be provided to the Committee at a future date.

504 **RESOLVED:-**

That the Schedule of Outstanding minutes be noted.

DATE OF THE NEXT MEETING

505 The next meeting is scheduled to take place on Tuesday, 18 October 2022 at 1400 hours in the Committee Room 6, Council House, Birmingham.

OTHER URGENT BUSINESS

506 There was no other urgent business.

AUTHORITY TO CHAIRMAN AND OFFICERS

507 **RESOLVED:-**

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

The meeting ended at 1703 hours.

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CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	18th October 2022
Subject:	Birmingham Audit Annual Fraud Report 2021/22
Wards Affected:	All

1. Purpose of Report

- 1.1 The attached report updates the Audit Committee on how the Council has managed the risk of fraud during the period April 2021 to March 2022.

2. Recommendations

- 2.1 Members note the work undertaken during the year and draw assurance from the policies and procedures that are in place to prevent and detect fraud and error.

3. Background

- 3.1 The annual fraud report is a standalone report to summarise how the risk of fraud is being managed by the Council.
- 3.2 The level of fraud across the UK economy and the public sector continues to remain of national interest.
- 3.3 Counter fraud and error work remains a priority for the Council, and we continue to reinforce the 'zero tolerance' message.
- 3.4 Processes and procedures are in place for the prevention and detection of fraud and error, and we will utilise appropriate sanctions for those who commit fraud against the Authority, including criminal prosecutions.
- 3.5 We are increasing our financial investigation capability in order to utilise more tools to investigate fraud and money laundering and recover the proceeds of crime.
- 3.6 The number of fraud and error referrals received has remained at a largely consistent level. The value of fraud reported has increased,

predominantly down to fraud around COVID-19 financial support measures.

3.7 Social housing and Council Tax exemptions / discounts continue to remain high risk areas. We have achieved positive results in these areas, and these are outlined further in the report.

3.8 The COVID-19 Pandemic did impact on our ability to tackle some areas of fraud, but we are now making good progress to return to the levels of detection seen previously.

4. Legal and Resource Implications

4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

5. Risk Management and Equality Impact Assessment Issues

5.1 Risk management forms an important part of the internal control framework that the Council has in place.

5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

6. Compliance issues

6.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

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Sarah Dunlavy
Assistant Director, Audit & Risk Management

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Birmingham Audit Annual Fraud Report 2021/22

18th October 2022

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2. Audit Committee
3. Resources for Counter-Fraud Work
4. Raising Awareness
5. Levels of Fraud
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7. Intelligence
8. National Fraud Initiative (NFI)
9. Conclusions

1. Background

- 1.1 In common with other public bodies, the Council has a duty to protect the public purse. The purpose of this report is to update the Audit Committee on national and local fraud issues that arose during 2021/22, and in particular, the role played by Birmingham Audit in the investigation, prevention and detection of fraud.
- 1.2 The standards of governance required within the public sector are understandably high and controls within systems must be effective to minimise the risk of fraud and error. However, compliance with these controls can sometimes be an issue. During a period of change, internal controls can become unstable and ineffective and so it is important that any increased risk of fraud is identified and appropriately managed. Birmingham Audit is tasked with the investigation of suspected fraud and error and the identification of any system or procedural issues that allow such incidents to occur. We identify how fraud or other irregularity has been committed and make recommendations to senior management to address weaknesses in controls to reduce the chance of recurrence in the future. We also assist management in taking action against those found to have perpetrated fraud and in the recovery of any losses.
- 1.3 There remains a high level of interest in fraud nationally. This is fuelled in part by publicity around new and emerging fraud risks and the necessity to make scarce resources go as far as possible. Birmingham Audit is therefore continually looking to enhance its counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

2. Audit Committee

- 2.1 The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the Council to reduce levels of fraud and error. We regularly report on counter-fraud activity as part of our overall reporting on the work of the Audit service. The Committee share the view that prevention, detection and deterrence are all important and have probed what actions management can take to prevent fraud entering the systems in the first instance.
- 2.2 We have assessed the Council's performance in countering fraud against the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Managing the Risk of Fraud & Corruption. We participate in CIPFA's annual survey of Corruption and Fraud and take on board any best practice arising from the survey results. We will continue to assess our performance and emerging risks to ensure that it is in line with expectations and align our resources and processes accordingly.

3. Resources for Counter Fraud Work

- 3.1 The Corporate Fraud Team (CFT) is a dedicated counter-fraud team within Birmingham Audit and is responsible for the investigation of suspected financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The team identify how fraud or other irregularity has been committed and make recommendations to senior management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. In addition, where criminal activity has been committed, the team will consider instituting criminal proceedings or may refer the matter to the police and will help to seek redress from the perpetrators. The team will also investigate any issues of procedural non-compliance that may have a financial or reputational impact on the Council.
- 3.2 A specialist team within CFT was established in 2010 to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. An Intelligence Hub was also created to support the work of the team. The resources available for counter fraud activities have remained largely unchanged since 2016/17, which has allowed us to continue with both reactive and proactive investigations, as well as exploring new initiatives through increased use of data analytics.
- 3.3 Since October 2021, the Corporate Fraud Team has benefitted from having an Accredited Financial Investigator with powers to obtain banking information and investigate money laundering offences contrary to the Proceeds of Crime Act 2002. This has increased the ability of the team to investigate cases where funds have been transferred out of the authority and to recover the proceeds of crime wherever possible, using tools such as property restraining orders and account freezing orders. This is becoming a key area of our work, particularly with the emergence of more sophisticated frauds and scams. Three members of the Application Fraud Team have begun training as Financial Intelligence Officers to increase that capability further.
- 3.4 In recent years we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try to identify and stop fraud and error. This has largely been achieved by enhancing our fraud monitoring capability to extract data from Council systems and develop analytical tests designed to detect fraud and error by flagging up any unusual patterns in transactions for further interrogation and investigation. This also helps to inform the routine audit assurance work in these key financial systems. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

4. Raising Awareness

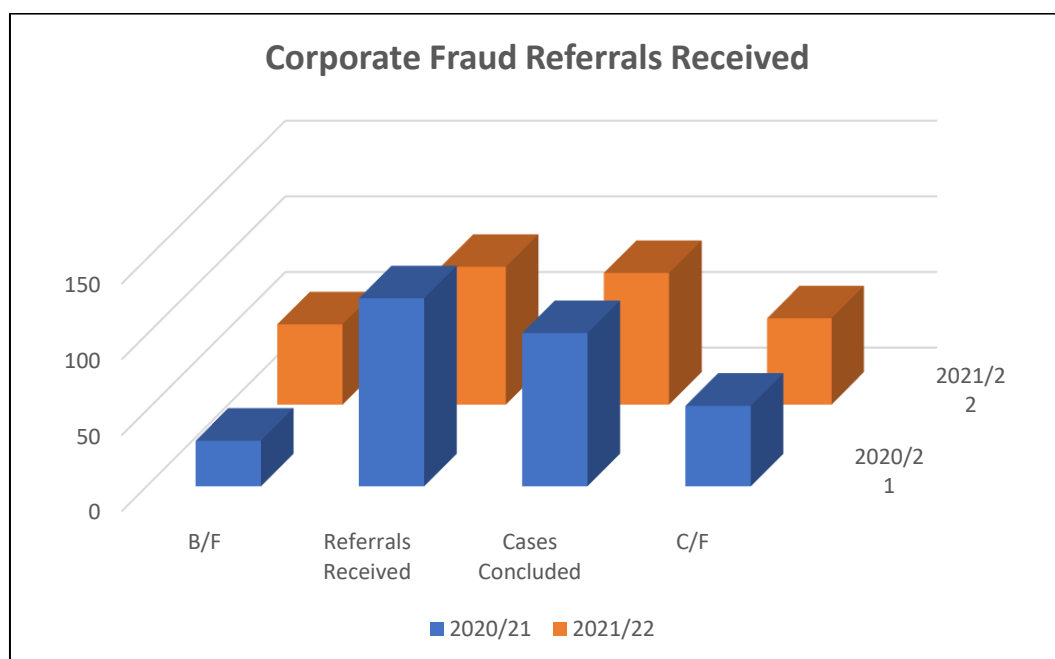
- 4.1 The overall stance on fraud by the Council is set by our Anti-Fraud and Corruption Policy, Fraud and Corruption Response Plan and the Whistleblowing Code. Adopting a strategic response that commits to tackling fraud at all levels within the organisation, fits in line with the principles of good governance.
- 4.2 As part of our work in raising awareness of fraud throughout the Council, we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated throughout the Council via the intranet, and a school specific version is distributed to all schools via the Schools Noticeboard. We also periodically issue alerts whenever we become aware of a fraud threat in a particular area, and review and revise corporate policies and procedures to respond to particular issues. We continue to explore the use of other media to help raise awareness of fraud, as well as participating in local counter fraud networks to exchange examples of best practice and share intelligence on emerging threats.
- 4.3 In November 2021, we launched a 'Focus on Fraud Awareness' e-learning package to all Council staff, to raise awareness of the types of frauds that they may encounter through their work. It is hoped that by raising awareness of the latest threats and trends in the fraud arena, and by highlighting some typical red flags, staff will be more vigilant and proactive in preventing fraud from occurring. Whilst we have been unable to mandate that staff must undertake the e-learning module, we have recommended it to all Directorates and have had positive feedback on its uptake.
- 4.4 We continue to work closely with the City Housing Directorate to ensure that staff involved in dealing with housing applications and tenancy issues are aware of the risks of fraud in this area. We have also established a good working relationship with Revenues & Benefits in tackling Council Tax related fraud and dealing with any associated benefit issues which may arise from our investigations.

5. Levels of Fraud

- 5.1 It is difficult to measure the level of fraud against the Council. Not all fraud is formally reported; some will go undetected, and some will be prevented. In some cases, it is difficult to quantify a value. Similarly, some losses can be attributed to error, misinterpretation or poor management. A good example of this is contract management, where contractors seek to maximise their profits by exploring potential loopholes within contracts, or where a procurement process has been intentionally circumvented, resulting in items being supplied but not necessarily at the best price. The level of identified fraud in any particular year can vary significantly, depending on the nature and outcome of the cases investigated.

- 5.2 The Annual Fraud Indicator 2017, which is the last government sanctioned study, estimates that fraud costs the public sector £40.3bn annually, with £7.3bn of this total being lost in local government. However, a recent publication by the University of Portsmouth's Centre for Counter Fraud Studies estimates that, due to COVID-19, there has been a 19.8% increase in fraud in England and Wales, and so this figure is likely to have increased since that study.
- 5.3 It is difficult to place a monetary value on our anti-fraud activity during 2021/22, particularly in terms of our work in relation to prevention and deterrence. Some quantifiable losses that are identified through investigation may be recovered, and work on the associated system issues may prevent and deter further losses. During 2021/22, the level of fraud/error investigated by CFT contained a notional value totalling just over £964,000 (£256,000 in 2020/21, £235,000 in 2019/20). This figure excludes application-based fraud (Social Housing and Council Tax) which is covered in Section 6 of this report. The increase is largely attributable to COVID-19 Pandemic related financial support frauds.
- 5.4 During 2021/22, CFT received information in respect of 91 potential irregularities (124 in 2020/21 and 105 in 2019/20) from a variety of sources. Referrals can cover a wide range of issues, some of which lead to major investigations requiring significant resources, whilst others may be referred to the directorates to deal with locally. The Council's Financial Regulations place a responsibility on all employees to report suspicions of financial irregularity, and the revamped whistleblowing procedures have encouraged more staff to make disclosures. We regularly liaise with Legal Services to discuss the progress on those whistleblowing cases that are referred to us for investigation. We also receive information from various external sources, including members of the public, often using our dedicated Fraud Hotline. Additional referrals may arise when we raise awareness of a particular issue, or when we identify a specific issue through data matching exercises such as the National Fraud Initiative (NFI). During the year we received several referrals concerning potential breaches of the Staff Code of Conduct, which may not necessarily constitute fraud, but can nevertheless pose a potentially significant risk to the Council's reputation.
- 5.5 The table below summarises the reactive investigations activity of CFT (excluding Application Fraud) during the year:

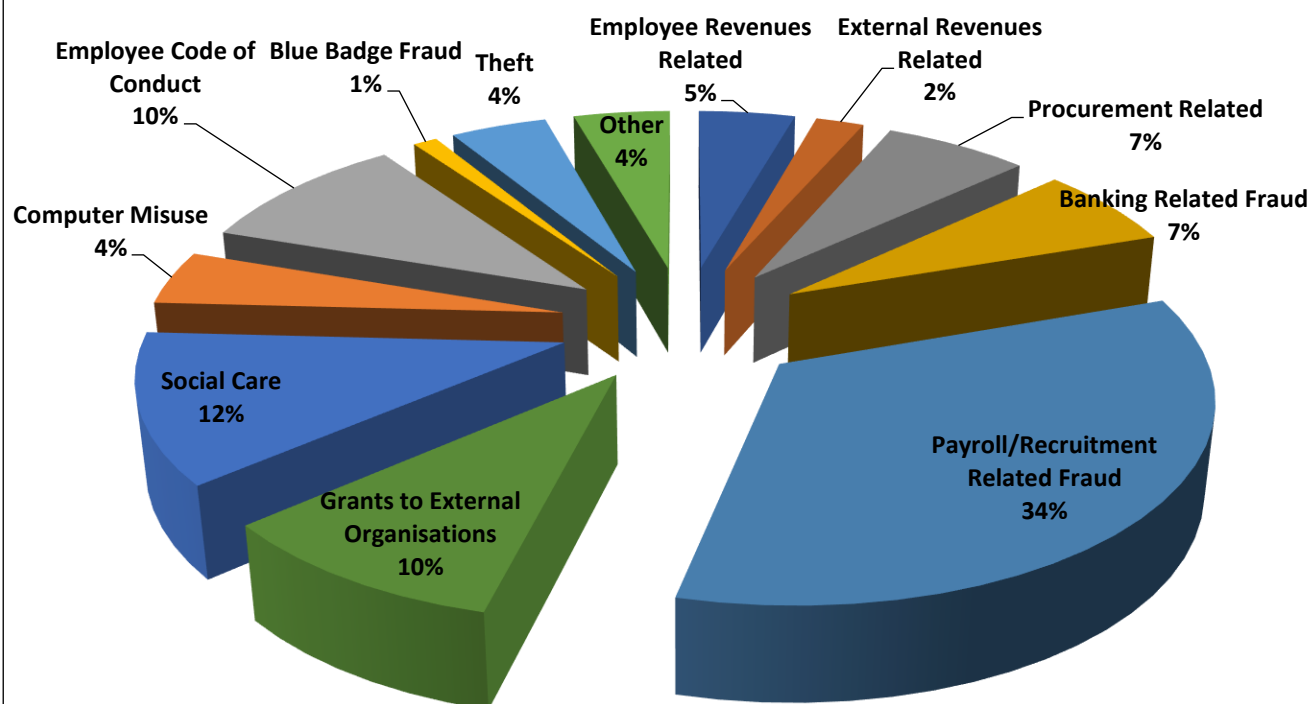
	2020/21	2021/22
Number of outstanding investigations at the beginning of the year	30	53
Number of fraud referrals received during the year	124	91
Number of cases concluded during the year	101	87
Number of investigations outstanding at the end of the year	53	57



The referrals can be categorised by fraud type as follows:

FRAUD TYPE	REFERRALS RECEIVED 2021/22
Employee Revenues Related Fraud, i.e. Council Tax, rents, benefits	4
External Revenues Related, i.e. Business Rates	2
Procurement Related Fraud, i.e. purchasing, contracts, creditor payments	6
Banking Related Fraud, i.e. payment diversion, cheques	6
Payroll/Recruitment Related Fraud, i.e. salary overpayments, false absenteeism, overclaimed hours, false employment history	31
Grants to External Organisations, i.e. support through grants, loans	9
Grant or Allowance - Public, i.e. Social Care Direct Payments	11
Computer Misuse, i.e. password sharing, unauthorised systems access	4
Employee Code of Conduct	9
Blue Badge Fraud	1
Theft	4
Other	4
Total	91

Corporate Fraud Referral by Type 2021/22

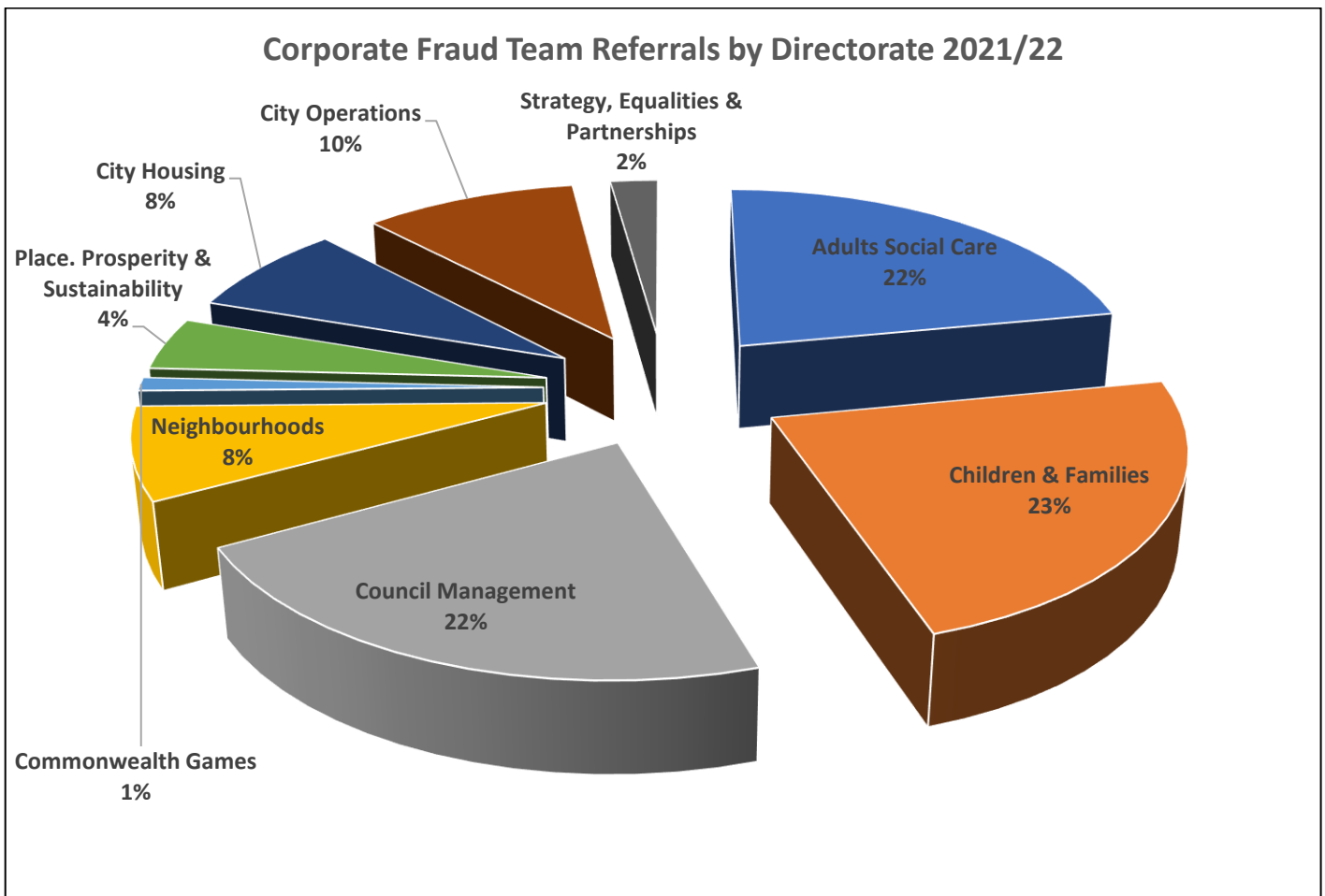


The referrals can be categorised by service area¹ as follows:

SERVICE AREA	No. OF REFERRALS
Adults Social Care	20
Children & Families	21
Council Management ²	20
Neighbourhoods ¹	7
Commonwealth Games	1
Place, Prosperity & Sustainability	4
City Housing	7
City Operations	9
Strategy, Equalities & Partnerships	2
TOTAL	91

¹ Based on Directorate structure at the time of reporting

² Includes Digital & Customer Services and Finance & Governance



- 5.6 Each referral is assessed, and a decision made as to whether an audit investigation is necessary or whether the matter is best left to local management to deal with. This enables us to concentrate our resources on the most urgent or high-profile cases. The split between different types of referral in any year can be affected by a number of factors, such as a particular proactive fraud exercise, fraud awareness initiative or corporate action. Some of the issues that are referred to us are not necessarily fraud, such as those involving computer misuse or breaches of the Employee Code of Conduct, but nonetheless, any procedural non-compliance can lead to fraud being committed and therefore we ensure these matters are investigated and dealt with appropriately.
- 5.7 During the year, we have continued to receive referrals relating to payroll overpayments. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been considered. This is particularly in respect of any Code of Conduct issues, where it is established that the employee has failed in their duty to report the fact that they were being overpaid, or where

managers have been negligent in their responsibility to update payroll or HR systems. To help reduce the number of salary overpayments occurring, we regularly run a proactive data analysis tool, highlighting computer systems where a current employee is showing as dormant, which may indicate that they have left the organisation and should have been cancelled on payroll (see paragraph 5.11).

- 5.8 Following the COVID Pandemic we received a number of reports of suspicious applications for business support grants. A number of those were investigated and closed with appropriate outcomes, including the recovery of some of the funds. Some of the applications continue to be investigated and we are working closely with both Revenues & Benefits and Regulation & Enforcement to investigate those applications deemed to be fraudulent. We are prioritising the most serious cases and files have been passed to Legal Services to consider commencing criminal proceedings against the perpetrators. In two cases, some fraudulently obtained funds have been frozen, pending the outcome of the criminal investigations.
- 5.9 During the year we have received details of three attempted payment diversions. There has been a national increase in the number of instances and sophistication of this type of fraud. Fortunately, in the case of all three, existing systems managed to prevent any funds being paid out. The bank accounts linked to the fraudsters were reported to their respective banks so that they could take action to prevent other organisations falling victim.
- 5.10 We have continued to see social care related frauds reported to us. These were mainly in respect of Direct Payments and were reported to us either by members of the public or Adults Social Care staff. Criminal investigations are ongoing for some of these cases, and we continue to work with the Directorate in ensuring that a more robust approach is taken in relation to tackling potential fraud in this area.
- 5.11 We have continued to enhance our capability in the use of data analytics and now periodically run reports from some of the main financial systems to proactively identify potential fraud and error. Utilising a Corporate Fraud Risk Assessment developed in the previous year, we have carried out proactive exercises looking at various transactions from both the Payroll and Accounts Payable systems. In addition, we have looked at patterns of attendance on the Borer Time Recording system, Purchase Card Expenditure, Activity on Systems by Leavers, and Dormant Activity on Systems by Current Employees. These projects not only help to detect fraud and error, but also highlight areas of poor practice and procedural non-compliance. Through our liaison with other local authorities and professional bodies, we continually look to identify emerging fraud risks for inclusion in our programme of proactive work.
- 5.12 In any investigation conducted, the team seek to identify how fraud or other irregularity has been committed and make recommendations to senior management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of reoccurrence in the future. In carrying out our investigations, we have regard to the various

outcomes available, whether this is internal disciplinary action against a Council employee, recovery of any funds, or considering instigating criminal proceedings. We continue to work with Human Resources and Legal Services colleagues to ensure the best outcome for the Council.

6. Application Fraud

- 6.1 The re-prioritisation of our work in recent years, in response to legislative changes and to reflect those areas seen as high risk, has seen more resources being committed to tackling application-based fraud relating to Social Housing and Council Tax, both of which are commonly acknowledged nationally as being high risk areas. The CIPFA Fraud & Corruption Tracker estimated that in 2019/20, the value of Social Housing fraud across the UK was £122.4m (£135.6m 2018/19) and Council Tax related fraud was £35.9m (£30.6m in 2018/19).

Social Housing Fraud

- 6.2 During the year, we have continued to work closely with the City Housing Directorate, to investigate and remedy all aspects of social housing fraud, including illegal sub-letting, non-residency, false applications and Right to Buy. We also continue to provide support in the use of the data warehouse to help them verify details submitted on housing / homeless / Right to Buy applications. Our primary objectives have always been:

- a) to recover social housing properties where investigations find that they are not being used as intended; and
- b) to protect the gateway for social housing by preventing fraudulent applications entering the system.

- 6.3 We continue to receive a high number of notifications relating to potential social housing fraud. Through our investigations, we recovered 22 Council properties (14 in 2020/21, 59 in 2019/20) with a combined indicative value of £2,046,000*. The properties recovered are returned to the housing stock to enable those with a genuine need for social housing to be provided with a home. We also cancelled 548 housing applications prior to letting (591 in 2020/21, 667 in 2019/20), with a combined indicative value of £1,775,520**.

* Based on an indicative cost of £93,000 per property, source: Cabinet Office

** Based on an indicative cost of £3,240 per application, source: Cabinet Office

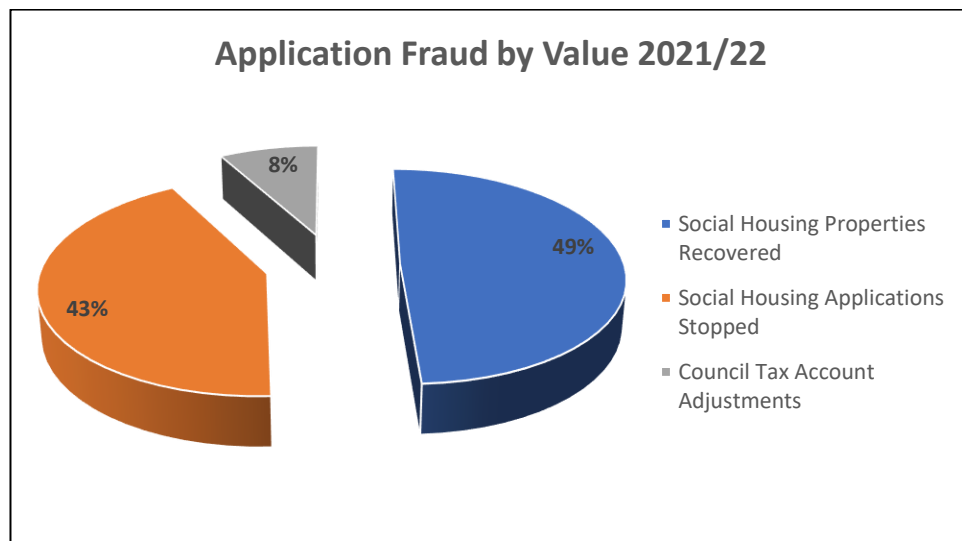
- 6.4 The Council's Prosecution & Sanctions Policy and legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders, whilst the Proceeds of Crime Act 2002 can be used to recover losses. Although prosecuting offenders and publicising successful convictions act as a valuable deterrent and helps raise

awareness of the problem of tenancy fraud, it is a time-consuming process and is not always possible because of lack of evidence or documentation. We also support Housing in bringing civil proceedings to regain possession of properties where we have found evidence that the tenants are not using the property as their main home.

- 6.5 There are obvious social benefits in ensuring that only those with the greatest need are allocated social housing, but there is also a real financial saving from preventing and/or stopping social housing fraud, particularly in respect of providing temporary accommodation, and losing valuable housing stock through fraudulent Right to Buy applications. We will continue to work with the directorate to further develop work in this area.
- 6.6 In May 2021, a Birmingham City Council employee and his wife both pleaded guilty to a total of 6 charges of fraud by false representation, after admitting to a social housing tenancy fraud discovered by our Application Fraud Team. The couple had made false declarations on housing applications that they were effectively homeless and were allocated a council property, when at the time, they actually had over £95,000 of personal savings. The value of the fraud was calculated to be just over £12,000, which represented what the couple would have had to pay to privately rent a property, had they not been given a council house. They were handed suspended prison sentences and have been ordered to re-pay the proceeds of their crimes. The employee was subsequently dismissed by Birmingham City Council and Housing are in the process of taking possession proceedings to recover the property.

Council Tax Fraud

- 6.7 Since April 2013, local authorities have been responsible for administering their own Council Tax Support schemes and need to ensure that safeguards are in place to minimise fraudulent claims. The Council Tax Reduction Schemes - Detection of Fraud & Enforcement (England) Regulations 2013 authorise the investigation of offences in relation to Council Tax Reduction Schemes, and also create offences and enable penalties to be imposed in connection with these schemes. These are reflected in our Prosecution & Sanctions Policy.
- 6.8 We continue to identify fraudulent claims for Single Person Discount, as well as for some of the various Council Tax exemptions, such as those given to students, people in residential care homes, and cases awaiting probate to be granted. As a result of this, a total of £336,703 of adjustments in Council Tax liabilities were identified (£332,000 in 2020/21, £429,144 in 2019/20).



- 6.9 We are increasing the use of statutory penalties in addition to the requirement to re-pay incorrectly claimed exemptions and refer the more serious cases to Legal Services to consider commencing criminal proceedings. Where cases of Council Tax fraud involve Birmingham City Council employees, a report will also be made to the individual's senior management team to consider disciplinary action. By this action, we hope to reinforce the message that fraud against the Council Tax system will not be tolerated.

7. Intelligence

- 7.1 We continue to enhance our capability by developing our data warehouse facility with the addition of more data sets, not only with Council data, but also those of our partners and neighbouring authorities. This provides us with a sophisticated data resource to enhance our intelligence function in assisting our investigations. We have extended access to the facility to a variety of frontline services across the Council, as well as to our external partners, including law enforcement agencies, where it provides a comprehensive means of verifying information to help tackle crime and disorder. In Housing, it has been embedded into their verification checks on applications and tenancy records, helping to combat social housing fraud. It is also used by Trading Standards, Taxi-licensing and Schools Admissions. By extending access to the data warehouse, we have been able to reduce the reliance on our intelligence function to provide verification checks.
- 7.2 The development of All City Risk (ACR), which matches data contained in housing applications with other Council held data, allows us to identify potential fraud and error within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. As indicated above, the process has reduced the amount of fraud or error that requires a formal investigation, as it will

have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error. Our work in this area is highly regarded nationally and we often receive enquiries from other Local Authorities wishing to establish similar schemes in their areas.

8. National Fraud Initiative (NFI)

- 8.1 During the year we continued work on the National Fraud Initiative. The NFI is a bi-annual data-matching exercise undertaken by the Cabinet Office, which matches a variety of data across public bodies for the purpose of identifying fraud and error.
- 8.2 The NFI 2020/2021 exercise identified fraud and error in our systems totalling £609,958. The Cabinet Office also used the exercise to calculate savings achieved from the information provided, for example blue badges cancelled. Savings for the Council for the 2020/21 exercise are estimated to be £1,113,778.
- 8.3 The latest exercise (NFI 2020/2021) returned almost 39,000 matches of our data against that held by other public bodies, where a potential anomaly was identified. The Cabinet Office does not expect all of these to be checked and provides guidance on the areas that they recommend are investigated further. Whilst the matches may be an indicator of fraud or error, in most cases the match can be attributed to outdated or incorrect data, but nevertheless still needs to be checked and if necessary, records put right. Due to resourcing, we must pass the majority of these matches to the relevant service area for them to review, particularly those relating to Housing Benefit and Housing Tenancies. So far, we have processed just over 13,470 matches from the current exercise, identifying fraud and error of over £71,000, mainly in respect of Housing Benefit. A further 5,462 matches are currently under review and work will continue on the remaining matches in the coming months.
- 8.4 The 2022/23 exercise will commence shortly with the main data extract being passed to the Cabinet Office in early October 2022, and the matches returned for review in early 2023.

9. Conclusions

- 9.1 Countering fraud and error remains a priority for the Council. We continue to work on reinforcing the message of 'zero tolerance' through prevention, detection and deterrence. Where fraud is identified, we will implement appropriate sanctions, including financial penalties and/or criminal prosecution.
- 9.2 As part of our investigatory work, we continue to highlight weaknesses in systems and procedures and make recommendations to assist management in addressing these issues.

We therefore expect management to act decisively and implement our recommendations and if necessary, take robust action against employees who choose not to comply.

- 9.3 Whilst it is difficult to assess the Council's overall exposure to the risk of fraud and error, it is safe to say that there will always be an increased risk in those areas where systems are weak, or where controls are allowed to be circumvented. Managers must remain alert to this risk and take responsibility for assessing it within their business area by ensuring that robust procedures are in place and are followed. This is more important than ever with fewer resources available.
- 9.4 Our continued commitment to tackle Social Housing Fraud has not only delivered financial benefits to the Council, by freeing up scarce housing resources, it also provides huge social benefits by helping to ensure that these resources are allocated to those most in need.
- 9.5 Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error by proactively identifying anomalies for further investigation.
- 9.6 The expansion of our Data Warehouse continues to provide benefits, not only in terms of detecting and preventing fraud and error, but also in the effective delivery of Council services and helping to tackle crime and disorder.
- 9.7 Our increased financial investigation capability will provide us with additional tools for investigating fraud and money laundering and tracing and recovering the proceeds of crime.
- 9.8 We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that everyone knows how to report their concerns.

John Preston
Group Auditor – Corporate Fraud
Birmingham Audit

Informing the audit risk assessment for Birmingham City Council 2021/22

28 September 2022



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 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 your business or any 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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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 Council's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from the management of Birmingham City Council ('the Council'). 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	<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 continued impact of COVID, in particular the Council's response to it • The Council's response to Government's new levelling up agenda • Continued work with BHL on the Highways PFI agreement <p>Our material judgements and estimates are:</p> <ul style="list-style-type: none"> • Property valuations; • Pension valuations <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>
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<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>
3. Is there any use of financial instruments, including derivatives?	<p>Yes, the council does have financial instruments. There are not expected to be any new items in 2021/22 compared to those previously disclosed in note 37 of our 2020/21 financial statements. The policy for the use of financial instruments is as set out in, and approved annually in the council financial plan.</p>
4. Are you aware of any significant transactions outside the normal course of business?	<p>None that aren't listed in the answer to question 1 above.</p>

General Enquiries of Management

Question	Management response
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.
6. Are you aware of any guarantee contracts? If so, please provide further details.	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 unasserted 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"> • Housing benefit claims • Equal pay claims • Employee compensation claims • Letters of support • MMI settlement scheme
8. Other than in house solicitors, please provide details of those solicitors utilised by the 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.

General Enquiries of Management

Question	Management response
9. Have any of the 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. Please 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.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as receivables (including loans) and investments? If so, please provide further details.	Yes, 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 the 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 the Council's management.

Fraud Risk Assessment

Question	Management response
<p>1. Has the 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 Council'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 and reviewed during 2021. This assessment highlights areas of proactive counter fraud work and takes into account previous areas of concern and national trends identified by the CIPFA fraud and corruption tracker. Proactive work around has been tailored around those areas which have been identified as being high risk. A schedule of data extract reports run from the main financial systems to identify potential fraud and error. This formed the bulk of our work during the period of lockdown. Following the removal of COVID restriction investigations / investigation visits have recommenced. During 2021/22 we implemented a Council wide fraud awareness e-learning solution. A school specific fraud awareness e-learning solution is currently being piloted and will be rolled out across schools shortly.</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>The various Government funding packages put in place as a response to the COVID-19 Pandemic have also proven to be a source of significant fraud risk. The widely advertised availability of funding measures, combined with the pressure on the Authority to distribute the funding in a timely fashion, has heightened this risk. The funding schemes issued in the early part of the Pandemic, namely the 'Small Business Grant Fund' and 'Retail, Hospitality and Leisure Grant Fund' were those most targeted by fraudsters.</p>

Fraud Risk Assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2021?</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 1/4/2021 89 referrals have been received in the year to date (as at 16/03/2022). This does not include application fraud (Social Housing and Council Tax).</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> <p>Risk is reported to Audit Committee quarterly. An annual Fraud Report summarises all our proactive and reactive work and summaries are included in the Internal Audit Annual and half-yearly reports.</p>
<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 the 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>

Fraud Risk Assessment

Question	Management response
<p>5. What processes does the 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.</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>During 2021/22 we implemented a Council wide fraud awareness e-learning solution. A school specific fraud awareness e-learning solution is currently being piloted and will be rolled out across schools shortly.</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. Are there any areas where there is potential for misreporting? If so, please provide details.</p>	<p>No.</p>
<p>7. How do you assess the overall control environment for the 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 of 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 various levels of quality control before publication and public reporting.</p>

Fraud Risk Assessment

Question	Management response
<p>8. How does the 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>

Fraud Risk Assessment

Question	Management response
<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>
<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 last Annual Fraud Report we have highlighted 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. Following the lifting of restriction investigations and visits to tenants have recommenced.</p>

Fraud Risk Assessment

Question	Management response
12. Are you aware of any whistleblowing potential or complaints by potential whistleblowers? If so, what has been your response?	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 to Internal Audit during the last financial year.
13. Have any reports been made under the Bribery Act? If so, please provide details.	No.

Laws 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 the 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 the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council'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 and forms part of the annual financial statements. 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. 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 2021 with an ongoing impact on the 2021/22 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 the 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. This comprises monthly performance and assurance reporting to the Council's Corporate Leadership Team (CLT) as well as regular assessment of risk meetings as between the Statutory Officers (ie the Head of Paid Service/Chief Executive, s.151 Finance Officer and Monitoring Officer.</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

The 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 the Council;
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- 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 Council, or of any entity that is a related party of the Council.

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 Council's perspective but material from a related party viewpoint then the Council 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 of the Council, including those disclosed in Council's 2020/21 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 the Council • whether the 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 46 from the 2020/21 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 the 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
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<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> <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>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>See Question 3 response.</p>

Going Concern

Matters in relation to going concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for NHS bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and/or conditions which may indicate that the statutory services being provided by the Council will no longer continue?</p>	<p>The Council through its rigorous and diligent financial management, coupled with Medium Term Financial Plan (MTFP) reports to both Cabinet and the Overview and Scrutiny Resources, identifying events/conditions that may impact on provision of statutory services.</p> <p>The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans therefore protecting delivery of statutory services.</p>
<p>2. Is management aware of any factors which may mean for the Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by the Council, does the Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for the Council to cease to exist?</p>	<p>Birmingham City Council is expect to continue to deliver statutory services for the foreseeable future.</p>

Going Concern

Question	Management response
4. Is management satisfied that the financial reporting framework permits the Council to prepare its financial statements on a going concern basis? Is management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes.

Accounting Estimates

Matters in relation to 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
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>The two main area of accounting estimates related to</p> <ul style="list-style-type: none"> • Property valuations • Pension valuations; and <p>There are no changes in our approach to calculating theses estimates over the prior year approach.</p>
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	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.
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>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
4. How does management review the outcomes of previous accounting estimates?	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.

Accounting Estimates – General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No
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 Council 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.

Accounting Estimates – General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <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. 	<p>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.</p>
<p>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?</p>	<p>None other than noted above.</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A, reasonable?</p>	<p>Estimates are made taking into account historical experience, current trends and other relevant factors. 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 expert, development of the sensitivity of the result to fluctuations in assumptions and through the process of review and challenge by the final accounts team.</p>

Accounting Estimates – General Enquiries of Management

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

Appendix A – Accounting Estimates

Accounting Estimates

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

<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>The Council recognises a variety of land and buildings in its balance sheet, and applies a range of valuation methodologies, in line with the adopted accounting policies and required standards, to arrive at a valuation for the portfolio at each balance sheet date. A number of these approaches include specific estimates, and uncertainties.</p> <p>The key mitigations that we have in place are</p> <ol style="list-style-type: none"> 1) Estimates provided by valuers in line with RICS requirements; and 2) a process of review and challenge, particularly focussed on outliers. <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? Were any changes made to these methods or models in 2021/22, 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 Council recognises the value of a significant number of other land and buildings (c1,500 properties). The valuation approach for other land and buildings is to obtain valuations on the basis of a five year rolling programme, which is supplemented by annual reviews, to reflect significant changes in market value. For asset classes that use a DRC valuation, the Council's valuer applies an appropriate index to those properties that don't have a full, detailed valuation performed, to obtain an estimated valuation. No changes are expected to be made with respect to the models, or the methods used in 2021/22.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, 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 2021/22.</p>
<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 2021/22, 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> <p>No changes are expected to be made to the major sources of data used in 2021/22.</p>

Accounting Estimates

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

5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	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. 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.
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 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. 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.
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?	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. 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.

Accounting Estimates

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

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.

Accounting Estimates

Council Dwellings valuation

<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>The Council recognises the value of nearly 60,000 properties in total. Of these properties, approximately 49,000 use this beacon valuation approach, which is the agreed, recommended approach where such large numbers of properties require a valuation. With such a large population of properties being valued, then there is naturally a degree of estimation uncertainty. The key mitigations that we have in place are</p> <ol style="list-style-type: none"> 1) Estimates provided by valuers in line with RICS requirements; and 2) a process of review and challenge, particularly focussed on outliers. <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? Were any changes made to these methods or models in 2021/22, 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>Council dwellings are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in intervening years. The majority of assets are valued using a beacon approach, where a value is undertaken for the housing stock portfolio based on properties that are a representative sample of the Council's properties across the city. The beacon value is derived from sales of similar, ex Council or comparable properties, suitably adjusted by taking into account information from the land registry and other relevant sources, before being applied to the wider population of properties.</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? Were any changes made to these assumptions in 2021/22, 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? Were any changes made to this source data in 2021/22, 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> <p>No changes are expected to be made to the major sources of data used in 2021/22.</p>

Accounting Estimate

Council Dwellings valuation

5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	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. 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.
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 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. 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.
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?	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. 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.

Accounting Estimates

Council Dwellings valuation

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.

Accounting Estimates

Depreciation estimate

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 2021/22, 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 2021/22, 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 2021/22, 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.

Accounting Estimate

Depreciation estimate

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.

Accounting Estimates

Net defined benefit pension liability valuation

<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. 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. The main way that BCC addresses the risk of material error arising from uncertainties in the pension valuation is through engaging a qualified actuary, Hymans Robertson, 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? Were any changes made to these methods or models in 2021/22, and if so what was the reason for the change?</p>	<p>As above, the main method is the utilisation of a specialist actuary. 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. There is no change expected to be made to these methods or the model in 2021/22.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?</p>	<p>Management rely on the assumptions provided by the qualified actuary. 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. 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? Were any changes made to this source data in 2021/22, 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 years and provide it to the actuary. 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. 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>

Accounting Estimate

Net defined benefit pension liability 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?	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.

Accounting Estimates

Equal pay provision

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 2021/22, 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 2021/22.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, 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 2021/22 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 2021/22, 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 2021/22). 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.

Accounting Estimate

Equal pay provision

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.

Accounting Estimates

Expected credit losses and impairment allowances

<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 risks were identified that would impact on material accuracy of financial statements. Any issues identified 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. This has then been used to inform their judgement as to the expected level of credit losses.</p>
<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 2021/22, and if so what was the reason for the change?</p>	<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. No changes have been made for 2021/22.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?</p>	<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. There are no changes to these assumptions expected in the current year.</p>
<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 2021/22, and if so what was the reason for the change?</p>	<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>
<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>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>

Accounting Estimate

Expected credit losses and impairment allowances

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 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.
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?	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.
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, a simple sensitivity analysis is performed as part of the review completed by the final accounts team.

Accounting Estimates

Income and Expenditure accruals

<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>There is a risk that expenditure accruals will be missed, given the number of transactions flowing through the Council's ledger. These risks have been addressed through the service teams reviewing each of their ledger codes, early preparation of closedown and specific annual training for all finance staff on closedown issues including accruals of income and expenditure. Budget holder guidance is updated and issued on an annual basis which also provides information on accruals and the importance of informing finance staff of all accruals of income and expenditure including prepayments. The final accounts team performs a number of cut off testing in April, May and June to capture transactions that have not been accrued.</p>
<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 2021/22, and if so what was the reason for the change?</p>	<p>The methodology is in line with the accruals and prepayments processes as dictated by Financial Standards and Regulations. In 2020/21 whilst there was no formal de minimis policy, staff were told not to focus on amounts below £5k at the risk of a material item being unaccrued. For 2021/22 this is no longer the case, a clear and consistent message has gone out to finance staff and budget holders via various media that there is no de minimis and therefore all items must be accrued for.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?</p>	<p>Transactions are recorded using the accruals basis of accounting, where expenses and revenue are recognised when used or earned. Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Expenses in relation to suppliers and services received (including services provided by employees) are recorded as expenditure when the supplies are consumed and services received rather than when payments are made. No changes have been made for 2021/22.</p>
<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 2021/22, and if so what was the reason for the change?</p>	<p>The principal source of data used is the underlying BCC ledger and other workflow systems that holds and processes data related to the Council's expenditure and revenue. No change is expected to the source of this data in the current year.</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>Finance staff consult service staff on the front line where appropriate to understand the nature of transactions and when the services will be delivered or benefits consumed. This knowledge is the key in recording of transactions in the correct accounting period. Training has been delivered where required to ensure correct application of accruals policy.</p>

Accounting Estimate

Income and Expenditure accruals

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?	Monitoring and control of accruals are principally done by directorates finance team via their periodic monitoring activities. For yearend, the overall level of accruals is monitored by the final accounts team via closedown forms for debtors and creditors – it is compared with levels provided in the prior year, and any significant changes in value or % are highlighted and investigated. The final accounts team performs a number of cut off testing in April, May and June for additional monitoring and control.
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?	Management consider the estimate uncertainty by doing sensitivity analysis and evaluation of key assumptions. The uncertainty is further reduced by engagement of finance colleagues with budget holders and utilising service team specific knowledge of transactions to accrue for expenditures at year end where needed.
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?	Any material movements in debtors/creditors quantum or % are identified and investigated to ensure compliance with accounting policy.



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Public Report

Birmingham City Council

Report to Audit Committee

18 October 2022



Subject: Equal Pay

Report of: The City Solicitor and Monitoring Officer

Relevant Cabinet Member: N/A

Relevant O &S Chair(s): N/A

Report author: Janie Berry, City Solicitor and Monitoring Officer

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential:		
The exempt appendix is exempt from public disclosure under paragraphs 4 and 5 of Schedule 12A of the Local Government Act 1972.		

1 Executive Summary

- 1.1 The purpose of this report is to provide the Committee with a synopsis of equal pay and to outline the financial implications of equal pay for the Council.
- 1.2 The exempt appendix provides a history of equal pay issues in Birmingham City Council and details of the mitigation that has been put in place to address and prevent such issues. Such information is exempt from public disclosure under paragraphs 3, 4 and 5 of Schedule 12A of the Local Government Act 1972. The exemptions relied on are as follows:

- 1.2.1 Sch. 12A para. 3 – *‘Information relating to the financial or business affairs of any particular person (including the authority holding that information)’*;
- 1.2.2 Sch. 12A para. 4 – *‘Information relating to any consultations or negotiations, or contemplated negotiations, in connection with any labour relations matter arising between the authority or Minister of the Crown and employees of, or office holders under, the authority’*; and
- 1.2.3 Sch. 12A para. 5 – *‘Information in respect of which legal professional privilege could be maintained in legal proceedings.’*
- 1.3 These provisions apply because the information in the exempt appendix relates to financial affairs pertaining to pay; relates to negotiations in connection with a labour relations matter (i.e. equal pay) arising between the Council and its employees; and is legally privileged.

2 Recommendations

- 2.1 That the Committee note the contents of this report and the exempt appendix.

3 Background

3.1 What is Equal Pay?

- 3.2 The right to equal pay was introduced domestically with the enactment of the Equal Pay Act 1970 (now replaced by the Equality Act 2010). This represented a huge cultural shift in the workplace and was the culmination of a long struggle to secure statutory recognition of the principle of equal pay for equal work.
- 3.3 The current equal pay provisions in the Equality Act 2010 are concerned with the establishment of equal terms and conditions of employment for men and women, as initially laid down in Article 141 EC Treaty (now Article 157), which explicitly states that *each Member State shall ensure that the principle of equal pay for male and female workers for equal work or work of equal value is applied*. Please note that the Retained EU Law (Revocation and Repeal) Bill was introduced to Parliament on 22 September 2022, which aims to remove retained EU law from the statute books by the end of 2023 and could, therefore, impact on domestic equal pay law.
- 3.4 The Equality Act 2010 provides that every person’s employment contract is deemed to include a sex equality clause, the practical effect of which is that if there is any term in a person’s employment contract that is less favourable than a comparator of the opposite sex, that term is modified so as not to be less favourable. What is more, if a person’s employment contract does not contain a term that is included in the contract of a comparator of the opposite sex, the sex equality clause will deem that it is included. However, the sex equality clause will only apply where two workers are doing equal work, are of the opposite sex, have the same employer, and where any difference in terms is not due to a material factor.
- 3.5 A history of the equal pay issues which have arisen in the Council is provided in the exempt appendix, as well as details of how such issues have been mitigated.

4 Options considered and Recommended Proposal

4.1 This report is for noting only.

5 Consultation

5.1 The Equal Pay Cabinet Committee is provided with updates as part of its quarterly meetings.

6 Risk Management

6.1 The Council's mitigation strategies are intended to address and end any current equal pay issues and to preclude further equal pay issues arising in the future.

7 Compliance Issues:

7.1 **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**

7.1.1 This report is for noting only.

7.2 Legal Implications

7.2.1 The power conferred by section 222 of the Local Government Act 1972, '*power of local authorities to prosecute or defend legal proceedings*', enables the Council to defend and to seek to settle equal pay claims in accordance with the Public Sector Equality Duty and equal pay provisions within Chapter 3 of Part 5 of the Equality Act 2010.

7.3 Financial Implications

7.3.1 The latest valuation of outstanding equal pay liability is £122.5m (March 2022 valuation) and provision has been made for this in the draft accounts for 2021/22 (still to be audited).

7.3.2 As at March 2022, the Council's total expenditure as a result of settling equal pay claims issued under the Equality Act 2010 and preceding Equal Pay Act 1970 was £1.1 billion. When the outstanding liability of £122.5m quoted above is considered, then total expected expenditure is estimated to rise to around £1.3 billion. The revenue implications of equal pay settlements have been reflected in both the budget and the Council's medium-term financial plans in relation to later years. This includes capital financing costs arising from previous years' capital expenditure, loss of income and other costs arising from asset sales and the repayment of any temporary borrowing from reserves.

7.4 Procurement Implications (if required)

7.4.1 N/A

7.5 Human Resources Implications (if required)

7.5.1 N/A

7.6 Public Sector Equality Duty

- 7.6.1 The Council's mitigation strategies endeavour to limit any adverse equality impact on staff at the Council, to further the Public Sector Equality Duty, and to ensure compliance with the equal pay provisions within the Equality Act 2010 (Chapter 3).

8 Appendices




- 8.1 Exempt appendix: Equal Pay

9 Background Documents

- 9.1 Reports to Cabinet dated December 2018, December 2020 and November 2021

BIRMINGHAM CITY COUNCIL**AUDIT COMMITTEE****18 October 2022****SCHEDULE OF OUTSTANDING MINUTES**

Note: As of 30 September 2021 – Responses to outstanding actions to be made within a 2 month period unless there is an exceptional reason.

	Completed & discharged
	Approaching 2 months
	2 months +

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
377 19/10/2021	<p><u>ASSURANCE SESSION – THE DEPUTY LEADER’S PORTFOLIO</u></p> <p><u>Additional Recommendations:</u></p> <p>That the Audit Committee;</p> <p>(ii) Agreed for a briefing to be offered to all Members of the Council on Cyber Security, GDPR and roles related to data processing.</p> <p>(Outstanding)</p>	<p>Peter Bishop – Director, Digital & Customer Services to lead on responses.</p> <p>(ii) Briefing will be arranged to be delivered to an early meeting of the 2022-23 Audit Committee.</p> <p>Response to be provided at the 18 October meeting.</p>
	<p>(iii) Agreed for a briefing note to be provided to Audit Committee on the shared learnings of the Complaints area from both from Audit Committee and Coordinating O&S Committee.</p> <p>POINT iii) OF ACTION 377 19/10/2021 COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING.</p>	<p>(iii) Briefing note will be provided to the Committee in the early stage of the 2022-23 municipal year.</p> <p>Response received at the 28 September meeting</p>
412 25/01/2022	<p><u>EXTERNAL AUDITOR'S FINDINGS REPORT 2020/21</u></p> <p><u>Additional Recommendation</u></p> <p>(ii) That the Managing Director Housing report on the valuation of Tower blocks in the City Housing stock.</p> <p>COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING</p>	<p>Verbal update provided by Mohammed Sajid on 28 September 2022.</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
413 25/01/2022	<p><u>OMBUDSMAN REPORT CONCERNING A COMPLAINT ABOUT THE REFUSE AND RECYCLING SERVICE</u></p> <p><u>Additional Recommendation</u></p> <p>(ii) That the Chief Executive review how departments work in a joined-up way and how complaints from residents and Councilor's on poor service are dealt with.</p> <p>COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING</p>	<p>A letter from Councillor Grindrod inviting the Chief Executive to attend a future Audit Committee meeting was sent on 13 April 2022. Committee Services to ensure a date is agreed for the CEO to attend a meeting.</p> <p>Response received at the 28 September meeting</p>
414 25/01/2022	<p><u>RISK MANAGEMENT UPDATE</u></p> <p>(iii) That the SR5.6 Safeguarding Children risk position on the strategic risk map be raised with the Cabinet Member and officers at a future meeting.</p> <p>COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING</p>	<p>Sarah Dunlavey/ Sue Harrison</p> <p>Response received at the 28 September meeting</p>
442 29/03/2022	<p><u>ADOPTION OF ACCOUNTING POLICES FOR 2021/22</u></p> <p>(i) Members requested that Officers facilitate a future training session in relation to the valuation process associated with the Council's plant and property.</p>	<p>This training session will be arranged during the early stages of the 2022-23 municipal year.</p> <p>Mohammed Sajid to confirm</p>
443 20/04/2022	<p><u>2020/21 AUDITORS ANNUAL REPORT</u></p> <p>(i) Members requested that a future training session should be provided in relation to Member's interests</p> <p>COMPLETED & DISCHARGED</p>	<p>Satinder Sahota/ Rochelle Tapping to action</p> <p>Training was provided to members as part of their induction process.</p>
444 20/04/2022	<p><u>2020/21 AUDITORS ANNUAL REPORT</u></p> <p>(i) Members requested that the relevant Service Director and Cabinet Member responsible for the Home to School Transport Service attend a future meeting to outline how the concerns outlined in the External Auditors report are being addressed.</p>	<p>Sue Harrison/ Mike Fagan</p> <p>Response received at the 28 September meeting</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
	COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING	
478 30/06/2022	<u>AUDIT COMMITTEE – FUNCTIONS</u> <u>Additional Recommendation</u> ii) That the Independent Advisor to hold a private session with Members before the next Committee meeting. COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING	Andrew Hardingham Private session took place ahead of the 28 September 2022 Committee meeting.
484 30/06/2022	<u>BIRMINGHAM AUDIT ANNUAL REPORT 2021/22</u> iii) Officers to provide an update to members around queries on fraud recovery. COMPLETED & DISCHARGED AT 28 SEPTEMBER MEETING	Craig Price circulated a response to Committee Members on 18/07/2022.

