

# Informing the audit risk assessment for Birmingham City Council

Year ended 31 March 2020

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## Table of Contents

<b>Section</b>	<b>Page</b>
Purpose	4
General Enquiries of Management	5
Fraud Risk Assessment	8
Laws and Regulations	16
Going Concern Considerations	19
Related Parties	23
Accounting Estimates	25
Appendix A Accounting Estimates	27

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority'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 and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) 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 Audit Committee's oversight of the following areas:

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

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

## General Enquiries of Management

Question	Management response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>The agreement entered into between Birmingham Highways Limited and the Council in June 2019 for the future delivery of the Highways PFI contract. The agreement required the retendering, both for a short term and long delivery by a new sub contractor of BHL, and the impact of this on the activity during the year will be fully assessed for the impact on the accounts.</p> <p>The Council uses experts to provide estimates for non-current asset and pension liability valuations. A marginal change in assumptions can have a significant impact on outcomes. The Council has used external experts to supplement and provide challenge where internal experts have been used to determine estimates. The spread of Covid-19 and the introduction of lockdown and the subsequent impact on the economy has increased the level of uncertainty on valuations. The financial statements will be based on the best estimates available but the disclosures within the accounts will be enhanced to make the reader aware of the basis of preparation and any uncertainty that follows.</p> <p>The rapid move to working remotely just before the year end as a result of the spread of Covid-19 and the emergency actions that the Council has had to undertake to support the citizens of Birmingham has meant a sudden switch in focus for operational and finance staff. The change in priorities may have led to a delay in completing actions at the year end and additional checks have been put in place to ensure that information in the financial ledger is robust.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The Council bases its accounting policies on the example accounting policies included in the CIPFA Code Guidance. The Audit Committee of the Council considers and approves the accounting policies each year.</p> <p>The accounting policies have been reviewed and only minor changes have been identified.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>Yes as part of the normal treasury management activity with the policy set out in the Council's Financial Plan approved annually.</p> <p>There is no use of derivatives.</p>
<p>Are you aware of any significant transactions outside the normal course of business?</p>	<p>The agreement in respect of the Highways PFI contract, as detailed above, being a change to the 25 year arrangement.</p> <p>The preparation for the delivery of the Commonwealth Games in 2022 involves a number of different activities that would not form part of the Council's normal course of business.</p>

## General Enquiries of Management

Question	Management response
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The spread of Covid-19 and the subsequent impact on the economy increases the level of uncertainty on asset values. Valuations of non-current assets have been based on the best information available and have been peer reviewed to ensure that they are as robust as can be. However, given the significant nature of current events there may be some level of uncertainty in valuations which will be explained in the financial statements.
Are you aware of any guarantee contracts?	Yes. The Council recognises, as part of agreements involving TUPE of staff to external organisations, guarantees to the pension fund for default by the external provider and generally to the external provider for increases over and above initial contribution rates payable.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The Council has provided a letter of comfort to a subsidiary company as part of the company's going concern assessment to ensure that it can continue to meet its liabilities as they fall due.
Other than in house solicitors, please provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years.	<p>The Council may use a range of external solicitors to supplement internal provision depending on caseload and the nature of the case under consideration. The external firms used for prior year activities are Bevan Brittan, Browne Jacobson, DWF, Pinsent Masons and Veale Wasbrough Vizards. For current year activity the external firms used are Anthony Collins, APC Solicitors, Berrymans Lace Mawer, Bevan Brittan, Browne Jacobson, DLA Piper, DWF, Gowling WLG, Pinsent Masons and Veale Wasbrough Vizards.</p> <p>The cases cover a range of activities from litigation, HR matters, development projects and contract matters.</p>
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements?	No fraud referrals were of a magnitude to have any impact on the financial statements.

## General Enquiries of Management

Question	Management response
<p>Please you provide details of other advisors consulted during the year and the issue on which they were consulted.</p>	<p>Non-Executive Advisors – Support to Council Leadership Team and consulted on budget process            Commonwealth Games - Savills, White Young Green, DWF (lawyers), CBRE, PwC, Gerald Eve, Arcadis, Mace            ERP implementation – SOCITM            Highways PFI contract – DLA Piper and Duff and Phelps            Treasury Management - Arlingclose            Integrating Health &amp; Social Care – Newton            Community Partnership Project Ltd - Schools PFI Saving            Waste Strategy - Wood Environment and Infrastructure Solutions UK Limited , Fichtner Consulting Engineers            Smithfield Project – Bevan Britten, Deloitte, Cushman &amp; Wakefield, Amion            Paradise Project – Cushman &amp; Wakefield, Amion, KPMG, Gardner and Theobold, Browne Jacobson (State Aid)            Ladywood – Avison Young, Amion, Cushman &amp; Wakefield            Enterprise Zone model – Montagu Evans            Asset valuations – support from Avison Young in completion of some valuations and review of internal valuations. Valuation Office Agency undertaking valuation of Tyseley Waste site.            PWC – Procurement assessment, Tax Advice, Tourism Levy Assessment, company liquidation            CIPFA – Financial Management, Debt Policy/Strategy            Finance Birmingham – external company support and investment</p>

# Fraud

## Matters in relation to fraud

ISA(UK&I)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 Authority'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 Authority's management.

## Fraud risk assessment

Question	Management response
<p>Has the Authority 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 does the Authority's risk management processes link to financial reporting?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas, and a dedicated Counter Fraud Team to investigate allegations of fraud. The Counter Fraud Team undertake reactive and proactive investigations across the organisation, which includes high risk areas such as Social Housing and Council Tax. The risk of material misstatement of the accounts due to undetected fraud is low.</p> <p>A Fraud Risk Assessment was undertaken in 2019, highlighting potential areas for proactive fraud exercises. This is based on the Council's experience of known fraud risk areas, taking into account previous instances of fraud, and areas which have been identified nationally by the CIPFA Fraud &amp; Corruption Tracker as representing either a high, or emerging, fraud risk. This year Internal Audit have delivered a programme of Fraud Awareness Training to managers in the Adults Social Care Directorate, in direct response to previous frauds within this area.</p> <p>Strategic risks have been taken into account in resource allocation and in the identification of issues highlighted in the AGS.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The CIPFA Fraud &amp; Corruption Tracker has identified Social Housing, Council Tax and Blue Badges as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. In recent years the Council has committed significant resources to tackling Social Housing and Council Tax related fraud, and a programme of Fraud Awareness Training has been delivered to Adult Social Care managers to address the risk of fraud in that area. Internal Audit are also working with Corporate Procurement Services to address the perceived risk posed by Serious &amp; Organised Crime in accessing public sector contracts. Housing Benefit also remains a high risk area however responsibility for investigating fraud in this area was transferred to the Department for Work &amp; Pensions (DWP) in 2015 and the Council no longer has any authority or legal power to investigate benefit fraud. Nevertheless, the Counter Fraud Team are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly.</p>

## Fraud risk assessment

Question	Management response
<p>Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?</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, and since 1.4.19, 94 cases (as at 21.2.20) had been recorded (excluding Social Housing and Council Tax). Other than the misappropriation of around £30,000 from a school by one of its employees, no other significant instances of fraud or irregularity have been identified during the year. Salary overpayments in excess of £3,000 continue to be investigated by Internal Audit, and during the year 15 cases have been referred.</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 Audit's work on fraud is presented annually to the Audit Committee.</p>

## Fraud risk assessment

Question	Management response
<p>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 Authority where fraud is more likely to occur?</p>	<p>The CIPFA Fraud &amp; Corruption Tracker has identified Social Housing, Council Tax and Blue Badges as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. In recent years the Council has committed significant resources to tackling Social Housing and Council Tax related fraud, and a programme of Fraud Awareness Training has been delivered to Adult Social Care managers to address the risk of fraud in that area. Internal Audit are also working with Corporate Procurement Services to address the perceived risk posed by Serious &amp; Organised Crime in accessing public sector contracts. Housing Benefit also remains a high risk area however responsibility for investigating fraud in this area was transferred to the Department for Work &amp; Pensions (DWP) in 2015 and the Council no longer has any authority or legal power to investigate benefit fraud. Nevertheless, the Counter Fraud Team are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly.</p> <p>The Counter Fraud Team actively investigate allegations of social housing fraud such as illegal sub-lets, non-residency of properties and fraudulent applications for social housing in respect of the Council's own stock and that of Registered Provider partners. During the year they have also sought to raise general awareness of the problem of tenancy fraud through the media. Internal Audit have also worked with Housing to secure the gateway to obtaining a tenancy through increased use of the Data Warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach has been pursued with applications made under the Right to Buy Scheme. Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions, so counter fraud resources have been committed to identify and investigate fraud and error in this area. The Council has traditionally taken part in the bi-annual National Fraud Initiative (NFI) data matching exercises to identify fraudulent claims for SPD's and Council Tax Support. However Internal Audit has now developed an automated programme of data matching, which allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. In time it is expected that the process will reduce the amount of fraud or error that needs a formal investigation as it will have been prevented or stopped almost as soon as it began. Social Care fraud is also considered to be a high risk area and Internal Audit continue to work closely with the Adults Social Care Directorate to combat Direct Payment fraud.</p>

## Fraud risk assessment

Question	Management response
<p>What processes does the Authority 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 the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit.</p> <p>As well as participating in NFI, regular data matching exercises are undertaken through Internal Audit's Data Warehouse facility and proactive data analytical routines are run on a periodic basis to highlight exceptions in data that may be an indication of fraud or error.</p> <p>Internal Audit participate in CIPFA's Fraud &amp; Corruption Tracker, the annual survey of fraud in local government, and review the results of the survey to identify potentially new fraud risks.</p> <p>Internal Audit staff participate in various forums to exchange ideas around fraud related issues, as well as working more widely in co-operation with law enforcement agencies to exchange information for the purpose of preventing and detecting crime.</p> <p>Fraud Spotlight, a bulletin covering fraud related topics, is published bi-annually on the Intranet, and similar material is distributed termly to schools through The Auditor bulletin, and to Adults Social Care through their staff bulletin. In addition ad-hoc fraud alerts are issued to schools through the Schools Noticeboard whenever a particular concern arises. The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter, which has been recently revised. Bespoke fraud awareness training for staff can be provided on specific fraud related issues, and during the year a programme of general fraud awareness training was rolled out to Adults Social Care managers.</p> <p>Procedures are in place for reporting fraud; which includes an on-line referral form, a fraud hotline and a whistle blowing process. Financial Regulations stipulate that all cases of fraud should be reported to Internal Audit. All fraud referrals are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations 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 and will also work with Legal Services if seeking civil remedy.</p>

## Fraud risk assessment

Question	Management response
<p>How would you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> <li>- does the process for reviewing the effectiveness of the system of internal control exist and work effectively?</li> <li>- do internal controls exist and work effectively, including segregation of duties?</li> </ul> <p>If not, 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 adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Internal Audit as part of delivering its audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. Data analytical techniques are used to proactively check compliance and identify exceptions.</p> <p>Financial reporting is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts and these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>
<p>Are there any areas where there is potential for misreporting?</p>	<p>The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts, these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>

## Fraud risk assessment

Question	Management response
<p>How does the Authority 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 Standards Procedures and Guidelines (PSPG) database.</p> <p>There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. There is a Whistleblowing Policy in place, which includes schools, and a dedicated Whistleblowing Reporting Mailbox. All recorded 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 numbers for fraud reporting. An on-line referral form is in place on the Employee Portal and Birmingham.gov.uk. In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit. No significant issues have been reported by staff during the last financial year.</p>
<p>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, those involved in processing high value transactions.</p> <p>There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Internal Audit as part of delivering its audit plan.</p>
<p>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 officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings. Reports provided through NFI are being used by Internal Audit to help identify undeclared relationships, along with proactive exercises analysing data from the main financial systems.</p>

## Fraud risk assessment

Question	Management response
<p>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 action taken. The Committee approves the Anti-Fraud &amp; Corruption Policy, Fraud Response Plan and Prosecution &amp; 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 explanations from management as it sees fit where it is felt that failings have led to instances of fraud and error. During the year, the Audit Committee requested further information about the occurrence of salary overpayments and has sought assurance as to how this problem is being addressed.</p>
<p>Are you aware of any whistleblowing potential or complaints by potential whistleblowers? If so, what has been your response?</p>	<p>Whistleblowing allegations can be reported to Legal Services who will determine whether the matters are to be treated as protected disclosures as defined under the BCC Whistleblowing Policy. Allegations of fraud and corruption will invariably be referred to Internal Audit to investigate. No significant issues have been reported during the last financial year.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>No</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA(UK&I)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 Authority'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>How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>This is dealt with in the Annual Governance Statement.</p> <p>All reports to Committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for Decision reports.</p> <p>The Monitoring officer is responsible for ensuring the Council is compliant with laws and regulations. The Council's constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> <li>Report on contraventions or likely contraventions of any enactment or rule of law.</li> <li>Report on any maladministration or injustice where Ombudsman has carried out an investigation.</li> <li>Receive copies of whistleblowing allegations of misconduct.</li> <li>Investigate and report any misconduct in compliance with Regulations.</li> <li>Advices on vices issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members.</li> </ul> <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 legal issues, the Monitoring Officer would get involved at an early stage including vetting reports for legal issues.</p> <p>Senior lawyers in Legal Services undertake corporate governance review of reports to Cabinet and Cabinet Members.</p>
<p>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 Audit Committee and forms part of the annual financial statements.</p> <p>Regular updates of the Council's Risk Register are considered by CMT and Audit Committee. The financial and legal implications are set out in committee reports.</p> <p>Reassurance to the Resources Overview and Scrutiny Committee would be through reports to the committee where they were appropriate.</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None that have not been already included in current outturn forecasts.</p>

## Impact of laws and regulations

Question	Management response
<p>What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?</p>	<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. Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities where there is uncertainty about any payment.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>None received</p>

# Going Concern

## Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going Concern Considerations

Question	Management response
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>The approval of the Council Financial Plan 2020-2024 was set the groundwork as a robust basis for identifying the Council as a going concern in 2020/21. Please see in particular Chapter 1 (p. 7 to p. 8) and Appendix E (p.102 to p.106), which includes a detailed discussion and tabular summary of the strategic and financial risks which management are aware of. This analysis informs the level of reserves and balances included in the Plan (p.42 to p.47), and supports the S151 officer's S25 Reports of the robustness of budget estimates (Chapter 8, p.73 – p. 81) and the Assessment of Reserves (Chapter 9, p. 82 – p. 85).</p> <p>The impact of the spread of Covid-19 and the subsequent actions taken to support the citizens of Birmingham and the local economy, supported by government funding, has had both short term and long term financial impacts on the Council. The full extent of the impact cannot yet be determined fully as they will be dependent on the extent of the current lockdown arrangements and the support provided by central government. The Council has closely monitored actual and expected expenditure, projected likely levels of income loss, further financial risks and cashflow monitoring. Depending on the extent of the additional pressures faced the Council is holding the commitment of policy contingency or requests to use reserves until the position becomes clearer.</p>
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>The Financial Plan 2020 - 2024 includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members and the Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern.</p> <p>Regular monitoring of the additional pressures faced as a result of the spread of Covid-19 are reported and the associated implications are kept under review.</p>
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>The Financial Plan 2020 - 2024 explicitly takes into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium-and long-term plans. The Council declared a Climate Emergency in June 2019 and introduced a sixth priority for the city to take a leading role in tackling climate change. The Chapter 3 of the Financial Plan 2020 – 2024 includes a section (p. 34 – p. 36) on how it intends to use resources generated from the Clean Air Zone (starting in June 2020) to begin to tackle climate change.</p>

## Going Concern Considerations

Question	Management response
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)</p>	<p>Audit Committee has received, and continues to receive, reports on significant issues facing the Council. During the last year, Audit Committee has received updates on matters relating to the Highways PFI contract, Paradise Circus redevelopment and Equal Pay. Regular update reports are provided by Birmingham Audit to Audit Committee.</p> <p>Audit Committee will also be receiving a report on the financial monitoring being undertaken to assess the impact of Covid-19 in addition to the normal monitoring arrangements.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>The Council's arrangements for its management of cashflows are set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. Ultimately, negative cashflow is controlled by the balanced budget requirement and the prudential limit and indicators.</p> <p>The Council's arrangements for budget monitoring, including the implementation of the savings programme, monitoring of the Capital Programme, including the Commonwealth Games, ensure that close attention is paid to the need to deliver services and projects within allocated budgets. Activity is reported through CLT, EMT and Resources Scrutiny on a monthly basis, and considered further at Capital Board, and ultimately at Cabinet on a quarterly basis.</p> <p>Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.</p> <p>A fundamental review of Directorates budgets was carried out in December 2019 and January 2020 resulting in savings not considered to be deliverable and a significant number of base budget pressures being identified and funded as part of the 2020/21 budget setting process.</p>
<p>Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?</p>	<p>The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, and the maintenance of reserve balances to mitigate any residual risk.</p> <p>Potential financial risks are identified at Appendix E of the Financial Plan 2020 – 2024 and the value of this is broadly the same as the forecast level of general reserves. These are medium term financial risks so the Council would also have a number of budget cycles to address these if they materialise.</p>

## Going Concern Considerations

Question	Management response
Does the Authority have procedures in place to assess its ability to continue as a going concern?	The Council has developed a 10 year cashflow monitoring model to enable it to assess its ability to meet its liabilities as they fall due.
Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	No
<p>Are arrangements in place to report the going concern assessment to the Audit Committee?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes. Quarterly monitoring reports, including statements on revenue, capital, reserves and treasury management positions, are considered at Cabinet. Monthly monitoring reports (months 2 – 10) are also considered by Scrutiny.</p> <p>Audit Committee receives reports on matter that may have a significant impact on the financial position of the Council.</p>

## Related Parties

### Matters in relation to related parties

Local Authorities are required to comply with IAS 24 and 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 authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

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

ISA (UK&I) 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>What controls does the Authority 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 officers 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 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 CC-GCG on a regular basis.</p>

# Accounting Estimates

## Matters in relation to accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

## Accounting Estimates

Question	Management response
<p>Are 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 (other than those in Appendix A)?</p>	<p>Yes. Experts in particular fields are used to provide estimates and there is a reasonableness check on the advice given. Also our external auditors have reviewed the basis of estimates in previous years and confirmed that the council's financial statements are materially correct.</p> <p>Given the significant impact on the citizens of Birmingham and the local economy as a result of the spread of Covid-19 and the associated actions taken to limit that spread, there is likely to be an increase in the level of uncertainty on valuations. Whilst valuations have been peer reviewed to ensure that estimates are reasonable, additional disclosures will be set out in the accounts to explain to readers, the basis of estimation and any potential uncertainty in values.</p>
<p>Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Where issues have been identified previously with respect to estimates, additional challenge and review, including external challenge, has been built into processes to ensure that estimates are robust.</p>
<p>How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>Regular monitoring reports are considered by Cabinet and are subject to call in by scrutiny for further review. Reports on specific areas are considered by Audit Committee, for example, on equal pay, highways PFI and Paradise redevelopment.</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	<p>A five year rolling revaluation programme supplemented by annual reviews of significant changes in market values, is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years in line with guidance from the Ministry of Health, Communities and Local Government. In intervening years a desktop review of the valuation is carried out. All assets are valued at current value.</p>	<p>The valuer is issued with instructions as to the basis of valuation in line with the CIPFA Code of Practice and RICS guidance. The internal valuations have been supplemented by a number of valuations carried out by external valuers including for the specialist asset of Tyseley Waste.</p> <p>The resultant valuations are then reviewed internally and then through suitably qualified external advisors who provide a challenge process.</p> <p>The resultant valuations are reviewed by Finance as to their reasonableness compared with previous years.</p>	<p>Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where external valuers for either the challenge process, for specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.</p>	<p>Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by valuers in line with RICS requirements and taking into account prevailing market conditions.</p> <p>The impact of Covid-19 may have an impact on valuations. Whilst the peer reviews have been put in place, including the use of independent valuers, there may be some level of uncertainty. Additional disclosures will be set out in the financial statements to ensure that the reader understands the basis of valuation, the uncertainties surrounding them and the judgements made in reaching the values accounted for.</p>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	<p>The estimated Useful Economic Life (UEL) of an asset is considered as part of the five year rolling valuation process undertaken by RICS qualified surveyors. Their judgement is included in the report provided to support the carrying values within the financial statements.</p> <p>Each year, an internal asset review is undertaken by services to determine whether there have been any changes to assets, part of which would focus on the UEL of the asset. Where there are significant changes, this information is provided to the valuer.</p>	<p>By its nature the UEL is an estimate but the use of an expert will provide comfort that on average assets will be able to meet service requirements over their UEL.</p>	<p>UEL is considered by the RICS qualified valuer as part of the annual report.</p>	<p>The Council uses standard parameters for the UEL of assets and if the valuer were to identify a UEL outside the usual range then additional information would be sought to determine the reason for the variance.</p>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p>Depreciation is charged on a straight line basis over the remaining UEL of an asset. Depreciation is not charged in the year of the asset purchase/creation but charged in full in the year of disposal. The level of annual depreciation will also be affected by any assessment of a residual value of an asset at the end of its UEL. This can only be an estimate based on the professional knowledge of the value.</p> <p>Depreciation is the outcome from two estimates, the valuation and the UEL.</p>	<p>Given that the constituent parts of the determination of depreciation are estimates then depreciation will be an estimate.</p>	<p>A qualified RICS valuer has identified the most appropriate valuation and UEL of an asset and these have been used to determine depreciation.</p>	<p>Depreciation can be determined on a number of differing bases. The Council feels that the charge to revenue for depreciation is best met by charging on a straight line basis over the UEL.</p>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments - property	Property –impairment is considered through two methods. The first is as part of the cyclical valuation undertaken by qualified valuers and the second is through an asset review undertaken by services in respect of their own properties. Once an asset has been identified as being impaired, the qualified valuers then undertake an assessment of the impact of that impairment.	The resultant impairments are reviewed by a qualified RICS surveyor.	Valuations are carried out by appropriately qualified valuers, that is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	<p>Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions.</p> <p>Peer reviews have been undertaken to ensure the robustness of valuations. The impact of Covid-19 may have increased the level of uncertainty in valuations and disclosures will be included in the financial statements to explain the impact of judgements made and any surrounding uncertainties.</p>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments – financial assets	Financial Assets –impairment is considered through two methods. From the investments made by the Council as non-treasury investments advice is sought from experts within Finance Birmingham who have appropriate experience whilst with Treasury investments advice is sought from Arlingclose.	Any resultant impairments are reviewed and challenged where the Council has relevant information	Yes.	As knowledge can only ever be partial in considering the financial position of external organisations, the Council has to rely on guidance from its external advisors with a check back for reasonableness on the basis of local knowledge.  The impact of Covid-19 may have increased the level of uncertainty in valuations and disclosures will be included in the financial statements to explain the impact of judgements made and any surrounding uncertainties.	No
Measurement of Financial Instruments	As above in the consideration of impairment in investments, advice is sought from external partners on the value of financial instruments.	As above in the consideration of impairment of investments.	Yes	As above in the consideration of impairment of investments.	As above in the consideration of impairment of investments.

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Expected Credit Losses	An analysis has been made of the repayment profile of invoices raised in a single financial year, broken down by the type of service being provided. This has then been used to inform the judgement as to the level of expected credit losses required taking into account the nature of the debtors and whether there is any security over the debt.	The estimates determined from the exercise have been compared to the amount of debt written off in prior years to ensure that estimates remained reasonable. Assumptions have been challenged on the robustness of provisions proposed.	A range of relevant Council staff have been consulted where appropriate. Training has been provided on the methodologies required under IFRS 9.	<p>There is a general consistency in the nature of services provided from year to year. The information gained from one year is used to refine estimates to ensure that they are as robust as can be.</p> <p>The impact of the spread of Covid-19 and the impact on the citizens of Birmingham and the local economy as a result of the measures taken may not be determined for some time. Whilst initial estimates have been made, the judgements supporting those estimates and the levels of uncertainty will be set out in additional and enhanced disclosures in the financial statements.</p>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	<p>Accruals are based on the best knowledge available at the year end. Items that have been delivered should be goods receipted and will appear automatically as creditors. However, reviews will be undertaken of open purchase orders, invoices not yet authorised plus a check of new year invoices paid to ensure that activity is recorded in the appropriate year. A team has also been put in place specifically to clear late invoices.</p> <p>Budget holders will also be asked to provide details of activity that has been undertaken and not yet invoiced to ensure that information is up to date.</p> <p>Where estimates have to be used to determine accruals, for example, in areas of high volume, low value activities, the accruals will be based on robust evidence of activity being undertaken.</p>	<p>As well as linking back to the robust forecasting undertaken, checks are made to ensure that there are no significant items that should also be accrued for that were not known at the time of the forecast.</p> <p>Budget holders will also be involved in identifying activity undertaken but not yet accounted for.</p>	Recognition of income and expenditure is undertaken with services who have detailed knowledge on the level of activity committed in the financial year.	<p>As with all estimates, knowledge can never be perfect but checks are undertaken on the anticipated level of activity compared to trends in spend and by checking activity undertaken in the new year to ensure that any significant items have not been excluded.</p> <p>The move to remote working and the introduction of emergency measures to mitigate the impact of Covid-19 just before the year end may have affected the clearance of transactions. Additional checks have been put in place to review new year activity to assess the year they should be recorded.</p>	<p>Given the issues identified in the previous financial year, more rigorous checks have been put in place in advance to raise the awareness of the need to account for activity in the correct financial year and to identify items where processes are not being actioned within appropriate timelines.</p> <p>As part of the evidence presented to audit, more focus is being placed on the provision of evidence supporting accruals and the analysis of recording activity is being undertaken.</p>

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Activity within the Council is reviewed to identify matters that may be material, both on a quantity and a quality basis, that happen after the year-end which may be of import to readers of the accounts.	Activity in the new year is reviewed to assess any implications that may affect views of the Council. This may be through committee reports, spend activity or general briefings.	Internal review	If matters are non-adjusting then there are no changes to numbers in the accounts. However, impacts are assessed to determine whether an item meets the criteria to be an adjusting event.	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The estimates of actuarial movements in the pension fund liabilities are undertaken by a qualified actuary. The actuary uses estimates based on their professional knowledge within accepted parameters used by the sector and as reviewed by the Council.	The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable.	A qualified actuary from Barnett Waddingham LLP, actuary to the West Midlands Pension Fund, is used to provide the information.	<p>The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis.</p> <p>Asset valuations have been based on the best estimates available to the pension fund at the time of producing the report. Additional disclosures will be set out in the accounts on the potential uncertainties at the year end.</p>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	A review of recharges has been undertaken in 2019/20 with a view to streamline existing processes and eliminate unnecessary recharging within the General Fund. In the next phase of the improvement process it is proposed to centralise 4 key areas, namely Procurement, IT, Legal and Property Services.	The estimates are produced from a download of the draft budget and as such reflect the controls and assumptions within BCC's financial planning process at that point. The process for recharging and reallocation have been strengthened with training given to finance teams.	CIFFA/CCAB qualified accountant.	The basis of allocation across the Council will be net nil in total. However, the next phase of the project will include a review of the bases of allocation.	The accounting method has not yet changed as current budgets are based on existing allocations but any mismatches between sender and receiver have been identified and cleared.



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