

Audit Committee

Minutes of the meeting held on Tuesday, 19 September 2023

Present: Councillor Lanchbury (Chair) – in the Chair

Councillors: Noor, Kilpatrick, Simcock, Stogia, Barker and Downs

Apologies: Councillor Curley

Also present: Councillor Akbar, Executive Member Finance

AC/24/25. Minutes

AC/24/26. Statement on the recent issue of a Section 114 Notice by Birmingham City Council

In light of the recent issue of a Section 114 Notice by Birmingham City Council, at the Chair's request, the Deputy City Treasurer made a statement to Committee members to provide assurance on the authority's financial position.

An outline of the factors that had contributed to Birmingham City Council's Section 114 notice was provided to the Committee. Members were informed that Manchester had settled all of its equal pay claims with no outstanding liabilities remaining as a result of its robust job evaluation processes. Members were also invited to note that some 27 Councils had to date either warned or had issued a Section 144 Notice due to significant funding pressures with more warning of similarly precarious circumstances should in-year budgets and/or savings not be delivered.

The Committee was invited to note that whilst the Authority's position was challenging with various overspends being reported, assurance was given that reserves were being utilised to mitigate the impact of ongoing cuts and pressures, thus leaving the Authority in a sustainable yet challenging position. However, further reductions in funding (eg the forthcoming Business Rates reset due in 2024/25 and further reductions in Children's and Adults Social Care) would pose a significant risk to the Council's longer term financial sustainability. He gave assurance that the Council would continue its prudent approach to treasury management and would uphold its established track record of taking early and positive financial decisions.

AC/24/27. Mazars (External Auditor) Annual Audit report 2020/2021

The Committee received the Annual Auditors' report (AAR) from Mazars (External Auditors) which summarised the work undertaken by Mazars in respect of audit work for the year ended 31 March 2021.

In addition to the background and introduction, the report included:

- The opinion on financial statements, including the scope of the audit and the results of the opinion.
- A discussion of Value for Money (VFM) arrangements, including the approach to VFM and a summary in respect of financial sustainability, governance and economy, efficiency and effectiveness; and
- An outline of wider reporting responsibilities, including fees

Alastair Newall (External Auditor) confirmed that this was the final report on the 202/21 audit which had been completed in August 2023 shortly following the Committee's previous meeting in July 2023. He gave emphasis to the information remaining unchanged to that which had been previously reported in July 2023 and had been submitted as a formality in line with National Audit Office requirements.

In response to a query from a committee member, he outlined the complexities in the approach required to ensure that valuations remained materially correct in the context of a five-year rolling programme and the Council's broad and complex asset base.

The Committee conveyed its thanks to the Finance Team and Mazars for the completion under challenging circumstances.

Decision

To note the report.

AC/24/28. Mazars (External Auditors) Audit Completion Letter 2020/21

The Committee received the Annual Audit Completion letter in respect of the 2020/21 Local Authority Accounts. Appended to the Letter was Mazars proposed audit report and opinion and a summary of additional fees to be requested from Public Sector Audit Appointments (PSAA). The letter confirmed that there were no matters to report to the Committee in relation to the audit.

The Committee acknowledged that the purpose of the letter's submission was to align with International Standards on Auditing - UK and Ireland (ISA (UK and Ireland)) requirements and that all matters relating to the 2020/21 Audit of Accounts was complete.

Decision

To note the audit completion in respect of 2020/21 Annual Accounts.

AC/24/29. Mazars (External Auditors) Audit Completion report 2021/22

The Committee received a report of the External Auditors (Mazars) which presented the Annual Audit Completion report for the year ending 31 March 2022.

The report included the following information:

- The Executive Summary,
- The Audit Status
- The Audit Approach
- Significant Findings
- Internal Control Mechanism recommendations
- Misstatements

The following were also appended to the report:

- The Draft Management Representation Letter
- The Draft Audit Report
- Independence
- Other Communications

Suresh Patel (External Auditor, Mazars) introduced the report with reference to its Executive Summary, highlighting familiar areas of risk and focus to the 2020/21 Audit of Accounts. Mr Patel indicated that Mazars were preparing to submit an unqualified opinion subject to a number of matters requiring completion and with an anticipated date of the end of September 2023. With regard to Value for Money arrangements, he endorsed the Deputy City Treasurer's earlier statement concerning the Council's financial sustainability as a result of unearmarked reserves. It was anticipated that the report on Value for Money audit work would be completed by the end of November 2023 at which the Annual Audit report for 2021/22 would be submitted. He added that no correspondence or objections from any sources including the public had been received in respect of the report.

Alastair Newall (External Auditor, Mazars) talked the Committee through the report's findings, providing a narrative for the similar areas of risk as identified in the previous financial year's audit. There was then a discussion about the factors that had contributed to those repeated risks which were said to be due in part to the impact of the five year rolling programme as well as ongoing considerations in respect of their individual nature and complexity, meaning that they may take longer to be appropriately addressed. He urged the Committee to note that this should not be seen as criticism of the Council's processes and that Mazars were satisfied with the progress that had been made thus far. The Committee acknowledged this.

Decision

To note the report.

AC/24/30. Final Statement of Accounts 2021/22

The Committee received the report of the Deputy Chief Executive and City Treasurer which presented the Council's final accounts for 2021/22 and an explanation for the key audit adjustments to the draft. The accounts had been updated from the draft accounts previously reported (27 September 2022) and took account of changes that had arisen since that time. This included the national accounting changes to the

reporting of infrastructure assets that had delayed the final audit of the accounts, and affected all Councils.

In addition to an introduction and background, the report discussed:

- Changes to the Single Entity Main Accounting Statements
- Group Accounts; and,
- Other changes

The following was appended to the report:

- A summary of changes to the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet
- The updated Annual Statement of Accounts 2021/22

The Committee was asked to:

- 1) Note the amendments made to the annual accounts since they were reported to the Audit Committee in September 2022
- 2) Approve the revised annual accounts including the accounting policies contained within them
- 3) Agree not to amend the annual accounts in relation to asset valuations as detailed in paragraphs 2.8, 2.11 and 2.12 and that the amounts are not considered material

The Deputy City Treasurer introduced the report's main points of consideration and responded to questions.

In response to a question from a Committee Member, the Deputy City Treasurer confirmed that the valuation regarding the National Football Museum (NFM) had been undertaken by professional valuers instructed by Mazars and that periodically differences of opinion can occur, and which highlighted the complexities of asset valuation. Mr Newall (External Auditor, Mazars) confirmed that the NFM sat amongst numerous city centre assets in which there had been a disparity over the land value rate applied when compared to other city centre sites. The Finance Lead added that in view of those complexities, a commitment was in place to have certain city centre assets valued on an annual basis. The Chair acknowledged the broad ranging asset base across the city resulting in the Council's decision to use a range of valuers to allow for the appropriate level of expertise.

Discussions moved to the report's discussion about the pensions liability as a result of the reintegration of former Northwards staff to the Council. The Deputy City Treasurer confirmed that the liabilities had been calculated correctly but had been posted in the incorrect subsection of the financial statement but had not been a discrepancy in terms of the amount of pensions liability.

Decision

- 1) Note the amendments made to the annual accounts since they were reported to the Audit Committee in September 2022

- 2 Approve the revised annual accounts including the accounting policies contained within them
- 3) Agree not to amend the annual accounts in relation to asset valuations as detailed in paragraphs 2.8, 2.11 and 2.12 and that the amounts are not considered material

AC/24/31. Mazars (External Auditors) Oral Update on Progress of 2022/23 Accounts

The Committee listened to an oral update on the progress of the 2022/23 accounts as delivered by Suresh Patel (External Auditor, Mazars).

Mr Patel set out the timetable for 2022/23 audit work. Planning and some interim audit work was scheduled to commence in November/December 2023 with detailed audit work scheduled for January 2024. The anticipated completion date for the audit was said to be the end of March 2024. No significant changes were highlighted for the audit plan itself, however with reference to earlier discussions in the meeting regarding repeated risks it was anticipated that those risks would reduce as a result of reviewed processes.

Discussions moved to the issue of Reinforced Autoclaved Aerated Concrete (RAAC) (aka RAAC concrete) and the scope for this to become an issue for the 2022/23 audit. The Deputy City Treasurer said that this was largely attributed to the schools sector with currently just one Voluntary Aided school partially affected though still operational. However a Task and Finish Group had been constituted to look at assets across the estate meaning that Council would soon be able to provide further information on the matter once those assessments had concluded with a view to whether any findings could significantly impair the Council's asset base.

Decision

To note the report.

AC/24/32. Work Programme

The Committee considered a report of the Governance and Scrutiny Support Unit which set out its future Work Programme for the remainder of 2023/24 municipal year.

Decision

To note the report and approve the work programme.