

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 28 MARCH 2023
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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON
TUESDAY, 28 MARCH 2023 AT 1400 HOURS IN COMMITTEE
ROOM 3&4, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

PRESENT:-

Councillor Fred Grindrod in the Chair;

Councillors Amar Khan, Miranda Perks, Shafique Shah and Paul Tilsley

NOTICE OF RECORDING/WEBCAST

567 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.

This meeting was recorded via MS Teams due to a room change issue and would be uploaded onto the You tube site.

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

APOLOGIES

568 Apologies were submitted on behalf of Councillors Shabrana Hussain and Meirion Jenkins for their inability to attend the meeting.

The Deputy Leader, Councillor Brigid Jones submitted her apologies for her inability to attend for the Assurance Session.

DECLARATIONS OF INTEREST

569 At this juncture, Councillor Tilsley declared a non-pecuniary interest as the Non-Executive Director for Birmingham Airport (page 67 of the document pack).

In addition, Councillor Tilsley was a beneficiary to the West Midlands Pension Fund (page 90 of the document pack).

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair checked with the Committee if there were any matters that Members would like to raise on the exempt appendices for item 9 that may affect the decision to be made in public. He further checked if members required any clarification on a point on the exempt appendices contained within item 9 - Private Report - Informing the Audit Risk 2022-23 & Group Company Governance Risk Assurance (Appendix 1).

At this stage, the Committee noted if there were no issues that required a private session, the meeting would continue in a public session and consider the recommendations accordingly.

Upon consideration, it was:

570

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.

At 1402, Councillor Amar Khan entered the meeting.

MINUTES – AUDIT COMMITTEE – 31 JANUARY 2023 & 14 FEBRUARY 2023 AND MATTERS ARISING

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That the public minutes of the meeting, 31 January 2023 having been circulated, were agreed by the Committee.

The 14 February 2023 minutes would be shared at the next meeting.

ASSURANCE SESSION - THE DEPUTY LEADER'S PORTFOLIO

The Chair advised the Committee that due to the Deputy Leader feeling unwell, she was unable to join the meeting for the Assurance Session. The Deputy Leader would be invited to the next meeting.

Upon consideration, it was:

572

RESOLVED:-

That the Audit Committee agreed for the Deputy Leader to be invited to the next meeting to deliver her Assurance Session.

At this juncture, the Chair noted the timings for the agenda would be re-distributed to other agenda items, in particular to item 11 (at least an additional 15 minutes).

Councillor Tilsley referred to the next meeting, 25 April where another Cabinet Member was due to attend. It was recognised Assurance Sessions took a lot of time and Audit Committee should be focussing on Audit issues. On this basis, it was preferred to hold one Assurance Session at a time. Only one Assurance Session to take place per meeting and the cycle to restart following May 2023.

The Head of Financial Strategy clarified the extra 15 mins was required for item 10 on the agenda not item 11. It was agreed to add extra time for item 10 – Audit Findings Report – 2020/21 & 2021/22.

BIRMINGHAM AUDIT - INTERNAL AUDIT PLAN 2023/24

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

(See document No.1)

The Assistant Director for Audit & Risk Management gave an overview of the report. This report was presented to the Committee annually.

Members were reminded the Peer Review report presented at the January meeting, a number of recommendations were indicated. One of the recommendations involved a better explanation as to why Internal Audit were auditing in certain areas.

The Principal Group Auditor highlighted the methodology had been reviewed to strengthen the links i.e. to give clearer link to risk, assurance, and Council's priorities. The methodology required Internal Audit to identify auditable areas across the whole Council and then consider first and second line of control defence, sources of assurance across the Councils' priorities. Further details were provided on the methodology and areas contained within the report.

Councillor Tilsley queried the 20 days allocated for Cyber Risk (page 32 of the document pack) and 40 days for IT/ Digital projects. It was questioned if 20 days would be enough for cyber risks. In addition, it was questioned if the

External Auditors had sight of the Internal Audit Plan. Members noted there was a skills shortage within this area.

Councillor Perks queried the process for identifying new risks. Questions were raised on appendix B and what was used during the process to measure effectiveness. This was explained in detail by the Principal Group Auditor.

The Chair referred to appendix B of the report and recognised this should be readily accessible and updated to ensure Members of the Committee understood the document. The process of tracking progress on appendix B was queried. There were further comments made on the challenges within IT areas, culture, and security and if the right conversations with Directors was taking place. It was queried if the learning from previous years had been improved upon in the upcoming years.

Comments were made around the contingency of risks and the ability and flexibility to move to other areas.

In response to Members queries, the Principal Group Auditor made the following points:

- 20 days allocated to Cyber Risk - This was sufficient time allocated in accordance with Corporate Cyber Security Planning and allowed sufficient time for control testing, assessing their effectiveness, and ensuring the Cyber Security Framework was in place. This included all areas of defence.
- The Internal Audit Plan was dynamic. It was noted, changes to the methodology were still being captured. The overview of the process for identifying new risks were shared. There was a degree of flexibility with the contingency days. The Auditors identify the risks via speaking to Directors and gathering intelligence across the whole Council.
- Appendix B – Within the progress report, updates on the Audit would be shared as well as any changes that had been made to the audit plan.
- The timescales on the audits varied – where risks were greater, they would require more time. There were difficulties to train auditors specifically to IT however this was being reviewed.
- There was an increased awareness on this area across the Council. Cyber risks were always emerging and changing.

At this juncture, the External Auditors attendees notified the Committee that Grant Thornton liaised with the Internal Auditors on a regular basis.

Additional points made by the Principal Group Auditor:

- Learning from previous years - Individual leads would review the work in specific areas and look at the contingency work. National trends would also be considered.
- Fraud - There was an increase in whistleblowing within this areas which were being investigated.

- Every review consisted of a Terms of Reference, an agreed scope of the work, methodology and testing. A process to achieve these would be agreed in advance.
- A benchmarking group was set up by the Core Cities where the planning process would be agreed. A comparison of the planning processes took place to capture any lessons that had to be learnt from others.

Upon consideration, it was:

573

RESOLVED:-

That the Audit Committee;

- (i) Noted the methodology and assumptions applied in developing the 2023/24 baseline internal audit plan;
- (ii) Considered the proposed audit coverage and there were no additional areas identified for inclusion in the ongoing risking process; and
- (iii) Approved the proposed baseline plan.

BCC ADOPTION OF ACCOUNTING POLICIES 2022/23

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

(See document No.2)

The Director of Council Management gave an overview of the report which was presented to the Committee every year. This Accounting Policy would be used to produce the Statement of Accounts.

Further details around the Accounting Policies were provided by the Interim Head of Financial Strategy. It was noted, most of the policies were the standard accounting policies that most Council's used.

No comments were made by Members of the Committee.

Upon consideration, it was:

574

RESOLVED:-

That the Audit Committee;

- (i) Adopted the accounting policies for the determination of the Council's accounts for 2022/23, and noted the changes to infrastructure assets accounting in 2021/22

- (ii) Noted the implications for future years' accounts arising from the changes in Accounting Standards.

GROUP COMPANY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT

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

(See document No.3)

The Director of Group & Capital Finance (Deputy S151 Officer) gave an overview of the report which was presented to the Committee on an annual basis. The report gave an outline to the responses from the Council's group companies questionnaire on their Audit Risk Assessment. The report had been considered by Cabinet Committee Group Company Governance at their meeting on 21st March 2023 and their observations were included within the report.

The Committee agreed not to move into a private session therefore, the meeting remained in public.

The Chair requested for a briefing session to take place on Cabinet Committee Group Company Governance for Members of the Committee.

Upon consideration, it was:

575

RESOLVED:-

That the Audit Committee Members;

- (i) Considered the responses from the Council's group companies, the issues raised by Cabinet Committee Group Company Governance (CC-GCG) and noted the process for group risk assessment.
- (ii) An offline briefing session to be arranged for Committee Members to understand the work undertaken by Cabinet Committee Group Company Governance.

AUDIT FINDINGS REPORT 2020/21 AND 2021/22

The following report of Report of the External Auditors was submitted: -

(See document No.4)

The Partner was in attendance with the previous Senior Manager (2020/21) and current Senior Manager (2021/22 Audit).

Audit Committee – 28 March 2023

An overview of the two reports was shared with the Members. The 2020/21 Audit report had been shared with the Committee on two previous occasions.

The update provided to the Committee was split into 3 areas:

- 1) Status of the Audit;
 - Both Audits are close enough to report now and the External Auditors are very close to issuing opinions with items remaining that should not affect the opinion
 - 2020/21 Audit was virtually complete than the year after. Final checks on the updated Annual Governance Statement were to be made before sign off. This had been delayed due to the national issue on infrastructure assets.
 - There are some outstanding issues with 2021/22, however both audits will be signed off in the near future.
- 2) Common issues in both reports;
 - Highways Infrastructure: CIPFA - updated the code – Auditors had to check the useful economic lives and the council made some changes to its practice. This had no bottom-line impact.
 - IT was a feature for both Audit reporting years as well as value for money audit. IT Security Access controls here are more broadly applied than they would expect. It was noted, the journals procedures allowed senior officers to undertake work which was not allowed in other places. As a result, the External Auditors had incorporated additional testing.
 - It was suggested the engagement on the IT access could be clearer i.e., accountability flows within the Council and how the Audit Committee was assured of accountability flows. This would allow confidence going forward for all and management of expectations from all sides.
 - Further assurances on subsidiary companies was required as BCT auditing ethical standard was different (but permitted) to the Council and could not be relied upon. The External Auditors had to compensate this with additional testing.
 - Cut-off work on expenditure – This was a greater challenge at BCC than other councils and is driven by the sheer scale of BCC where a minor audit fail leads to a large extrapolation. It was important to check the transactions were reported in the correct accounting period. It was suggested the Council should try to eliminate small errors.
 - Pension Fund – adjustments had been made in both audit years in relation to this which were outside the Council's control and are common across the West Midlands
- 3) Differences in both reports;
 - 2020/21 – Property Valuation findings such as DCF valuation. This led to adjustments. However, as a result of the work done by auditors and Council officers 2021/22 were much better

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- 2021/22: IT Transition – Oracle system implementation – Still in transition and recognised this was a complex area and is still being worked through. This would be an area that would be revisited with the Committee if it cannot be completed satisfactorily.

Councillor Tilsley referred to page 140 and concerns around the Oracle implementation and cost overruns, staff dissatisfaction etc. Reference was made to a particular paragraph within the report where further requests were made by the External Auditors. This highlighted the delays in responding and engaging with the Council's IT staff which would be commented upon further in The External Auditors Annual Auditors Report. In addition, there were noticeable problems within recruitment across all sectors.

In response to Members queries, the External Auditors and Director of Council Management made the following points:

- External Auditors – There was good and effective engagement from BCC Finance Team however, this was not felt with the IT department. A separate specialist IT Audit Team was in place. The External Auditors felt the Oracle Implementation and audit around this was not where it needed to be, and constructive engagement was required in the future. The External Auditors requested for details of who was best to engage with from the Council for IT matters.
- Further details around the completeness testing were shared with Committee Members. The 2021/2022, value for money work would be concluded by April 2023.

The Chair recognised there were difficulties with engagement between BCC IT department and the External Auditors. This would be raised and discussed as part of the Assurance Session for Cabinet Member/ portfolio holder (Councillor Francis) as this was an urgent resourcing / recruitment issue to be addressed. The recruitment issue had to be addressed. It was suggested to seek assurances on recruitment, a dashboard should be devised for the Committee indicating targets for workforce planning.

- Director of Council Management referred to September 2022, Security cyber systems, KPMG were Commissioned to undertake some comprehensive work around security. This was being fed into implementation plans. This should have been submitted to the External Auditors however, apologies were expressed by the Director of Council Management for any delays. It was felt the reason for the delay was due to the IT being busy rather than reluctance. Although this was no excuse and hopefully all information has now been shared.

It was noted there was a resourcing issue hence some delays in responding to External Auditors. Recruitment was an issue across services as there was a difference between private and public sectors. There was a general supply and demand issue with finance,

accountants. Finance had 15 apprentices which were being trained within the organisation.

- It was noted, 12 months ago, a piece of work took place on adult social Care to ensure Birmingham was competitive. It was recognised Birmingham was not competitive as the pay, retention, golden intros were not consistent. Permanent staff had now been recruited which had further spread across to Children Services. More work had to be done across the organisation as there was a need for more retention and consistency.

It was recognised there was good work undertaken 2021/22 Audit. There were only two recommendations in the Audit Report. This was a testament to colleagues involved in this work. This was echoed by the External Auditors as there was high level of engagement and a constructive positive relationship. The Chair thanked all those involved in the work.

Upon consideration, it was:

576

RESOLVED:-

That the Audit Committee;

- (i) Noted and agreed the updates provided by the External Auditors for Audit Findings Report 2020/21 and 2021/22.
- (ii) Suggested for officers to compile a dashboard indicating recruitment across the organisation indicating targets, workforce planning across service areas.

APPROVAL OF THE STATEMENT OF ACCOUNTS 2020/21 AND 2021/22

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

(See document No.5)

The Director of Council Management and the Interim Head of Financial Strategy gave an overview and summary of the report. Any significant changes indicated by the External Auditors would be brought back to the Committee.

Councillor Tilsley requested for the External Auditors thoughts on the level of borrowing the City Council had in 2021/22 Audit. Comments were made around the increase in Council Tax and interest charged. The External Auditor indicated this would be covered in the value for money work where key reassurances would be sought on financial sustainability. As interest rates rises, it was important to hit savings targets.

The Director of Council Management stated that Birmingham was the largest Local Authority and it was always the intention to reduce borrowing where possible.

The Chair requested for a briefing to be arranged to explain what had been happening in other areas of Local Government and for the Committee to gain better understanding. The Interim Head of Financial Strategy confirmed a report had been presented to Resources Overview & Scrutiny in September 2022 on why the Council borrows, safeguarding and reasons for affordable borrowing. The Council's Treasury Advisor to deliver an offline briefing to the Committee.

Upon consideration, it was:

577

RESOLVED:-

That the Audit Committee;

- (i) Noted the Audit Findings Report from Grant Thornton and accepted the recommendations of that report;
- (ii) Approved the Letter of Representation for the year ending 31 March 2021 from the Chief Finance Officer;
- (iii) Approved the Letter of Representation for the year ending 31 March 2022 from the Chief Finance Officer;
- (iv) Approved the Statement of Accounts for 2020/21 subject to external audit clearance of any outstanding issues and any resultant changes; and
- (v) Approved the Statement of Accounts for 2021/22 subject to external audit clearance of any outstanding issues and any resultant changes.
- (vi) Officers to arrange an offline briefing via the Treasury Advisor for committee members to gain a better understanding on affordable borrowing.

**OMBUDSMAN PUBLIC INTEREST REPORT CONCERNING A COMPLAINT
IN RELATION TO RESPITE SUPPORT FOR DISABLED CHILDREN**

The following report of Report of the Chief Executive of the Birmingham Children's Trust (BCT) was submitted: -

(See document No.6)

The Chair read an introductory statement regarding the Ombudsman public interest report.

The following points were made by attendees from the Birmingham Children's Trust. The attendees were noted as; the Director of Practice; the Non-Executive Director Performance & Quality Assurance Board and the Complaints and Information Manager;

- The recommendations and findings from the Ombudsman were accepted.
- All the recommendations and findings had been responded too.
- This was the only area within BCT where following a decision this went directly to the Ombudsman. There was no opportunity to follow the complaints process, to have a conversation, to come to a resolution etc.
- All the actions from the Ombudsman had been followed and the learning from the workforce and complaints process had been noted.
- The Performance and Quality Committee of BCT looked at the complaints procedures and receive annual reports. They would seek that all actions had been completed and oversee the work.

The Chair thanked attendees from BCT for their attendance. He was interested exploring the relationship between BCT Performance & Quality Committee and the Audit Committee. It was noted, a similar dialogue had taken place with the Chair of Audit for the Commonwealth Games hence he felt the relationships with certain Committees linked to Audit Committee should be looked at.

Councillor Perks noted the process and statutory complaints procedures however, queried what changes had been done i.e. providing parents with the reasons for the decisions in a letter. It was questioned if this had changed, or a different template had been used. Appeals in 2021 and the take up around this was referred to.

Additional comments were made by BCT colleagues:

- The whole complaints process had been amended. It was not usual practice not to speak with families following a decision. The professionals involved in the child's life would be aware of the decisions made.
- It was hoped that conversations and communications would take place prior to reaching a complaints process.
- Appeals 2021 – It was anticipated the level of appeals would be low as there were less people who were dissatisfied.
- All the recommendations had been responded too.

It was suggested that an invite to be extended to BCT colleagues when the Cabinet Member for Children, Young People and Families Assurance Session is scheduled to take place.

Upon consideration, it was:

578

RESOLVED:-

That the Audit Committee noted the Chief Executive of Birmingham Children's Trust response to the Local Government and Social Care Ombudsman's recommendations.

SCHEDULE OF OUTSTANDING MINUTES

The following Schedule of Outstanding Minutes was submitted:-

(See document No.7)

Minute 529: 25/11/2022 – Update was provided by the City Solicitor and Monitoring Officer. In relation to the Ukraine response, the City Solicitor and Monitoring Officer advised that work was currently taking place for scrutiny and that for ease and to avoid duplication it would be helpful for the link to the scrutiny meeting to be shared with Audit Committee Members to read the report.

Update: The report for the Task and Finish Group going to Co-ordinating Overview & Scrutiny Committee on 14 April 2023 will be shared with the Committee.

579 **RESOLVED:-**

That the updates to the Schedule of Outstanding minutes be noted.

DATE OF THE NEXT MEETING

580 The next meeting is scheduled to take place on Tuesday, 25 April 2023 at 1400 hours in the Committee Room 6, Council House, Birmingham.

OTHER URGENT BUSINESS

581 None

AUTHORITY TO CHAIRMAN AND OFFICERS

582 **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 1532 hours.

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CHAIR