

BIRMINGHAM CITY COUNCIL

**AUDIT COMMITTEE
30 JUNE 2020**

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 30 JUNE 2020 AT 1400 HOURS - ONLINE MEETING

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Tilsley, Jenkins, Bridle and Quinnen

NOTICE OF RECORDING/WEBCAST

- 201 The Chairman advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and members of the press/public could record and take photographs except where there were confidential or exempt items.

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

DECLARATIONS OF INTEREST

- 202 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

The Chair declared that he was a Non-Executive Director for Acivico Limited.
Councillor Tilsley declared he was a non-executive Director for Birmingham Airport.
Councillor Bridle declared she was on the grant making panel, the Community Trust Fund Board for Birmingham Airport.

APOLOGIES

- 203 Apologies were submitted on behalf of Councillor Akhtar for her inability to attend the meeting.
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

204

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.

Councillor Jenkins stated he would like to raise a matter the Chair had been made aware of. The Chair highlighted the item would be taken under 'any other business' and a statement had been prepared in response to the issue and would be shared at the end of the agenda.

MINUTES – AUDIT COMMITTEE – 28 JANUARY 2020

205

RESOLVED:-

That the Minutes of the last meeting be confirmed and signed.

The Chair referred to the Travel Assist item and confirmed he had written to the relevant Overview & Scrutiny (O&S) Committees. No formal replies had been received from Councillor Bore, the Chair of the Resources O&S as well as the Councillor Scott, the Chair of Education & Children's Social Care O&S Committees. However, Councillor Scott had taken the letter to her O&S Committee. No response had been received from Councillor Bore.

Minute 193 - ii) The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries.

Due to the impact of the Covid-19 crisis there had been delays however, an update report would be provided at the January 2021 Audit Committee.

TREASURY RISK MANAGEMENT ARRANGEMENTS

The following report of the Head of Capital and Treasury Management was submitted:

(See document No. 1) – (Page 25 of the document pack)

Rebecca Hellard, Interim Chief Finance Officer informed Members the report was specifically around the adequacy around the Treasury Risk Management Arrangements as set out in the Treasury Management Policy. A strategy is in place to ensure the policy is implemented. Members were reminded that Treasury Management was the management of borrowings, investments, cash flow, banking, investments on money markets and capital markets. This was a significant area and requires strong management of those risks.

Appendix 1 - Birmingham City Council Treasury risk management presentation focuses on how the risks are managed. Appendix 2 onwards – Financial Plan 2020 – 2024 (Treasury Management Extracts) provided further background around Treasury Management Policy, Strategy and Performance Reporting for Quarter 3 (2019/20) Financial year. Officers are looking at how this area of work would be reported through Cabinet and Scrutiny in future as Audit Committee has a broader remit than just risks.

Councillor Chatfield, Cabinet Member Finance and Resources was invited to the Committee to take part in discussions around the item.

Councillor Chatfield highlighted, this was not an area that members paid day to day attention to, however it could be a critical part of the organisation.

Reference was made to the Icelandic Bank and Lobo loans problems and issues. It was important that members of Audit Committee had the assurance that the risk balance was appropriately managed by the officers in charge. Members rely on officer's judgement around future market movement.

In response to Members' comments and questions the following points were captured: -

- Investment Strategy – Page 70 of the document pack, the investment strategy was to invest into high quality commercial which members were concerned about. A different strategy was being applied to underpin the work.
Commercial Investment – Rebecca Hellard highlighted the Government brought new regulations which CIFPA and others fed into. Councils such as Spelthorne and Portsmouth invested on assets primarily for yield purposes. Birmingham City Council do not go via this route and had no examples of this. Whilst there might be a return, the primary objective was for economic regeneration – creation of jobs, housing citizens of Birmingham. Each year, the Auditors review this area of investment.
- Average rate of borrowing – Martin Easton, Head of Capital & Treasury Management informed members historic long-term borrowing rates were high however reduced over time. Birmingham had taken long term loans over a period and some were still outstanding. The average interest rate was around 4% now.
- Councillor Jenkins referred to a shopping centre in his ward that had been purchased by Nottingham City Council as an asset to generate yield. Tenants had raised grievances around the conduct of Nottingham City Council in managing the asset during the crisis and made representations. City Council's and Local Authorities should be careful when investing in Commercial Assets as the lines between Commercial

Investment and Politics are beginning to seem blurred. It was felt these types of investments should be avoided.

Councillor Chatfield stated Birmingham's strategy was to look at what delivers for the City and not about gathering yield. It would reduce the amount of yield that came into the City but Birmingham would take low risk approach. There was the question around Birmingham's desire to become involved in commercial activities which involves difficult decisions, political controversy however, Birmingham had taken the approach of avoiding that route. He referred to Spelthorne Council where short term benefit was received, though high level of risk was involved which Birmingham would not consider. Birmingham had taken the right balanced approach.

- Officers were working with the Leader and Cabinet Members on economic regeneration to benefit the City of Birmingham. There were no plans to look for wider commercial investments.
- There were concerns around the risks associated with the current market conditions of the Covid-19 crisis. Martin Easton informed members, market conditions can be very volatile and at the start of the lockdown, there was a temporary spike in the 'gilt' yields (cost of Government borrowing), which was a risk-free interest cost that underlies all long-term borrowing costs. There was a short-term spike in those rates however the Government in the UK alongside other major Governments across the world stepped in and provided financial intervention for the markets. In turn that calmed effects down, and turbulence seen in 2008 crash was avoided. Currently low interest rates were available. Bank base rate has been cut further to 0.1%. Loan term interest rates, 'gilt' yields have fallen below 1% in many cases. There was speculation that there may be negative interest rates. At present, the outlook looked relatively flat for the short-term. Unlikely short-term base rates would be going up for some considerable time. The Council's Treasury Management that enables to continue funding the Council's long-term borrowing needs and short-term borrowing needs and portfolio at low interest rates.
- Councillor Chatfield added officers should explore, budget how far exploit the borrower's market in the current conditions? This should be considered and explored. The right approach was to minimise the risks however allow the Council to manage its cash flow and the ability for the Council to invest in the City e.g. Grand Central, Paradise Circus – large scale regeneration schemes.
- Councillor Tilsley referred to point 6.1 on page 70 of the document pack, investment would be primarily in Birmingham and the wider West Midlands region hence the question around commercial investments outside of Birmingham was raised. Wider West Midlands Regeneration, there was some Strategic Regeneration Assets that Birmingham had invested in e.g. Birmingham Airport.

- Members were reassured comments made by officers and Cabinet Member.

The Chair thanked the Cabinet Member and officers. He reminded the business of the Audit Committee was to ensure the Council has a risk management approach to the area of work.

Upon consideration, it was:

206

RESOLVED:-

That the Committee noted and considered the Council's treasury risk management arrangements as set out in the attached Treasury Management Policy, Strategy and treasury management practices.

BIRMINGHAM AUDIT – ANNUAL REPORT 2019/20

The following report of the Assistant Director, Audit & Risk Management was submitted:

(See document No. 2) – (Page 97 of the document pack)

Sarah Dunlavey, Assistant Director for Audit and Risk Management reminded Members part of the Audit Committee's terms of reference was to oversee the work of Internal Audit. The report gave a summary of the inputs, outputs and findings for 2019/20. It gave an updated Audit Charter and a copy of the Audit Plan for 2020/21. This was originally scheduled for the March Committee and approved in advance of the year however due to the current Covid-19 crisis, a section had been included in the report that covers over the year end.

The 2019/2020 Audit Plan was shaped with significant challenges and the level of change across the Council in which the highest risks were identified. It was noted, the plan often moves to reflect risks that arise during the year as well.

Sarah referred to page 100 leads to work that provides an assurance opinion, to which it had been given 'reasonable assurance.' Although the emergency was announced in late March, and the work by internal audit was covered up until 23rd March, there was no indication in the last 8 days the controls were no longer effective. In summary, a 'reasonable assurance' was given for the entire financial year. The assurance was mainly based on the work of internal audit, however external audit, other agencies, risk management framework and annual governance process also contribute.

Internal Audit also assist the Council to meet its objectives. It was highlighted 4316 audit days were delivered to which there was a variance as vacancies have impacted on schools' teams. A few days invested in Council's Cultural Change programme (Owning and Driving Performance – ODP).

210 reports had been produced with 114 recommendations.

- 10 recommendations were given high risk rating
- 34 recommendations were given medium risk rating
- 70 recommendations were given low risk rating

A report would be presented at the September Committee where a presentation would be provided by the Head of the Corporate Fraud Team.

Section 7 of the report highlighted the restrictions and various impacts of Covid-19. There had been various impacts therefore taken longer to finalise audits. Responses to recommendations had taken longer.

Members were informed, two members of her team had been seconded to the 'Track and Trace Team' where their expertise was required. All factors had an impact on the plan. Appendix D highlights the work that must be done to base assurances on next year. Appendix A gave a summary of 9 reports that were high risk. Summarises findings on schools' audits, risk management, financial systems, procurement and IT.

The Chair informed the Committee, the response on the new ways of working would be shared at the 28 July Audit Committee. The high risks reports produced by Internal Audit would be utilised to the new ways of working by inviting relevant Cabinet Members and Directors to come before the Committee to discuss issues.

In response to Members' comments and questions the following points were captured: -

- Concerns around number of cases concluded related to fraud (page 108 point 4.7.2) and difference between the years explained – This could be explored at the September Committee; however finalised cases are not the full story as some are more complex than others.
- Councillor Bridle referred to comment on page 116 – concerned about monitor and manage the issue of insufficient contingency around the Commonwealth Games Village – The current crisis Covid-19, reshaping delivery and revised business case went to Cabinet in March. There was an issue to discuss with Government around contingency (Athletes Village). The way the athletes would be accommodated was being reviewed globally in conjunction with other games.
- Councillor Tilsley pointed to page 118 – Schools – concerns around recruitment of staff.
Page 123 – Universal Credit – The way universal credit has been handled, housing benefit debt is £43.9million pounds, and what would the recovery rate be? Housing arrears £12.776million pounds – debt caused by universal credit. Sarah informed members a response to this area was given 6-12 months ago by Tim Saville (Head of Revenues). Information would be revisited and emailed to Members.

The Chair thanked officers for the updates and responses to queries.

Upon consideration, it was:

207

RESOLVED: -

That the Committee;

- i) Accepted the report and the annual assurance opinion for 2019/20.
- ii) Approved the 2020/21 Internal Audit Charter.
- iii) Approved the 2020/21 Internal Audit Plan and its prioritisation.
- iv) Officers to email Members information on the queries raised around housing arrears.

ANNUAL GOVERNANCE STATEMENT

The following report of the Interim Chief Finance Officer was submitted:

(See document No. 3) – (Page 147 of the document pack)

Rebecca Hellard, Interim Chief Finance Officer informed Members the Annual Governance Arrangements were reviewed once a year. The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2019/20 and reports on the Council's internal control regime. It was noted section 5 of the documents gave a review of 2018/19 governance issues. Section 6 of the AGS included 8 key issues for the Council which may impact on the organisation's governance arrangements.

Sarah Dunlavey added the AGS would be a part of the Statement of Accounts for 2019/20. However, this covered the period up until of the date the accounts were signed. The Statement of Accounts is to be submitted in November therefore, the approvals would be required by September 2020. References to Covid-19 had been incorporated into the AGS. It outlines how Business Unit Assurance Statements that feed into Directorate Assurance Statements and distil issues raised into themes or standalone issues. Issues raised, high audit reports areas alongside risk register would be used to reflect on new ways of working.

Comments and questions made by Members. The following points were captured: -

- Councillor Bridle commented there was lack of transparency around the decision making during the crisis. Officers were taking delegated decisions under the emergency procedures. However, it was important delegated decisions were clearly available in an open and transparent way. The reporting process and transparency needs to be improved. Officer delegations & transparency – Rebecca Hellard informed the delegations had occurred per the emergency planning section of the Constitution.
Catherine Parkinson, Interim City Solicitor & Monitoring Officer reassured Members over the last few weeks, they had gone through all the decisions that had been taken in the various cells (Strategic Cell, Tactical Cell and Operational Cell). These were unprecedented

circumstances therefore the Constitution mentions that once a major indecent had been declared, the decision making reverts to officer level to make decisions at pace and to protect and save lives. The decisions would be published by today (30 June 2020). Going forward the decisions would be published on a weekly basis.

- Councillor Tilsley added elected members were left out of the decision-making process. The Leader was not a 'Silver Card Holder' and would have felt more confident if the Leader or Deputy Leader of the Council were part of the command of process and decisions. Chris Naylor, Interim Chief Executive informed Members organisations should always be open and transparent. The emergency legislation places a requirement through the Command structure, and it would be difficult to step away from national approach. The advice given by the Director of Public Health was to be in full, partial lockdown for at least 12-18 months. The full list of decisions (under the emergency) would be published. It was noted where timelines allow to, and where possible, normal governance process would be followed unless the requirement to the response of recovery made this impossible.
- Councillor Jenkins supported comments made by other Members. It was noted people could go back to work, yet the Council was holding meetings online. The Leader emailed about the Council House building and modern working; however alternative options need to be thought out if the Council House was not suitable. There was limited scrutiny which was a great concern to group members. Virtual & physical meetings – Catherine updated Members meetings would be going to hybrid settings however at present the legislation does not enable to have meetings face to face. LGA were working with the Government therefore hoping that permission would be given to conduct hybrid meetings. There were issues around buildings and would be exploring this area.

The Chair thanked officers for the updates and responses to queries.

208

RESOLVED: -

That the Committee;

- i) Approved the Annual Governance Statement that would be included in the 2019/20 Statement of Accounts.
 - ii) Agreed the arrangements for the management of the items included in Section 6 would be reported to the Audit Committee during the year.
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ADOPTION OF ACCOUNTING POLICIES 2019/20

The following report of the Interim Chief Finance Officer was submitted:

(See document No. 4) – (Page 167 of the document pack)

Rebecca Hellard, Interim Chief Finance Officer informed Members the report comes to the Committee annually to adopt the accounting policies relevant to the Statement of Accounts 2019/20.

Martin Stevens, Head of City Finance Accounts added policies are applied where consolidating group accounts therefore adjustments may need to be made.

209

RESOLVED: -

That the Committee;

- i) Agreed to adopt the accounting policies for the determination of the Council's accounts for 2019/20.
- ii) Noted the implications for future years' accounts arising from the changes in accounting standards.

FINANCIAL MONITORING 2020/21

The following report of the Interim Chief Finance Officer was submitted:

(See document No. 5) – (Page 193 of the document pack)

Rebecca Hellard, Interim Chief Finance Officer informed Members Sara Pitt (Assistant Director Finance) would give an overview as she had undertaken in depth work to improve this area. The report sets out the change in financial monitoring both in Cabinet and Scrutiny.

Sara Pitt and Alan Layton, Head of Finance worked in conjunction on the report. There was a review of 2019/20 monthly exception reporting to improve accountability and streamline reporting. This would improve the quarterly reporting in order to make them easier to understand and read. There would be full integration of reporting including capital, treasury and reporting with a greater focus on outturn. More focus on balance sheets items, debts, borrowings as well as companies etc. It was noted last years month 10 report was applied to the new format and found there was a few key areas that were not reported. It didn't indicate activities that was driving numbers; e.g. Homelessness overspends – no explanation as to why that happened, underlying issues and no management action.

Adults Social Care - activity driving adult packages and what it would mean for future years, timescales, savings and mitigations. Going forward that would be much more focussed and clearer on risks.

Alan Layton added in terms of Covid-19, regular monitoring processes were put in place based on 6 months premises of the impact. The forecast of actual expenditure, income and loss reviewed and reported on a weekly basis. Section 3.2 of the reports sets the emergency planning rules applied.

Comments and questions made by Members. The following points were captured: -

- Clear report, however, there was the issue around fleet management overspend (Neighbourhoods) and underspend for Adults Social Care. Services need to be provided in the time of need.
- The report demonstrated risk management approach that was helpful to the Committee.

210

RESOLVED: -

That the Committee noted the arrangements in place to monitor the financial impact of Covid-19 and the arrangements for monitoring the Council's budget in 2020/21.

AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT

The following report of the Interim Chief Finance Officer was submitted:

(See document No. 6) – (Page 201 of the document pack)

Martin Stevens, Head of City Finance Accounts summarised the report was a further update to the Council's response to the External Auditors recommendations from their findings reports 2018/19. Further progress would be provided to the Committee. Officers are reminded regularly to implement actions to mitigate the recommendations.

211

RESOLVED: -

That the Committee;

- i) Noted the progress in implementing management actions, attached as Appendix 1, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in September 2019.
- ii) Agreed updated reports would be shared at future meetings of this committee on the continued progress in implementing the management actions proposed.

EXTERNAL AUDIT PLAN & PLAN UPDATE

The following report of the External Auditors was submitted:

(See document No. 7) – (Page 213 of the document pack)

Jon Roberts, Grant Thornton External Auditor informed Members the External Audit Plan was the normal plan that would have been shared at the March Committee, however this had been since updated with an addendum. There was now the inclusion of Covid-19 addendum on page 235 on the document pack. Jon reassured Members he had detailed conversations with officers throughout the course of producing the plans.

Covid -19 – Early actions from Secretary of State to extend the reporting deadline. Initially, the deadline was 31st July but since extended formally to 30th November. There was a longer timescale, however the audits relate to the 2019/20 financial year and value of money arrangements assessed were at 31st March 2020. At that point Covid-19 was relatively at its early stages, therefore value for money audit for this year Covid-19 did not have a direct impact. In future audit plans this would be captured. Whilst arrangements were in place at 31st March 2020, the External Auditors drawn upon evidence on the adequacy how resilient had these been to the challenges on the pandemic.

It was noted there were 5 value for money risks and these would be tracked with officers. Most of these were continuation of previous value for money risks.

- Council resilience and financial sustainability
- Waste service continuity and industrial relations
- Contractual arrangements relating to the highways PFI Scheme
- Contract monitoring and management
- Financial impact of the Commonwealth Games

Jon highlighted information around property valuation, group accounts transactions, valuations of investments – pensions and fund investments were important elements to the Financial Statement Audit.

A review of management's assessment of the going concern assumption and material uncertainties and evaluation of the disclosures in the financial statements would be undertaken.

Though audits have been carried out efficiently through secure routes, it was noted these are taking longer than usual.

The Chair added the value for money information was useful for the future ways of working of the Audit Committee. It was felt the work of the Audit Committee should be recognised in the External Auditors work to be more effective. Jon supported this and would be a great way to engage going forward. The audit plans were being developed into more detailed project plans and progress, feedback would be shared to the Committee.

RESOLVED: -

- 212 That the Committee noted the External Audit Plan and update year ending 31 March 2020.
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INFORMING THE AUDIT RISK ASSESSMENT

The following report of the External Auditors was submitted:

(See document No. 8) – (Page 239 of the document pack)

Laurelin Griffiths, Grant Thornton External Auditor informed Members the purpose of the report was 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 covered some important areas of the auditor risk assessment were required to make inquiries of the Audit Committee under auditing standards. Key issues related to fraud, growing concern related parties and estimates in finance statements. Responses had been updated by management to incorporate information around Covid-19 which was reflected in the document presented.

It was noted the External Auditors had no significant issues within the report and confirmed the answers given by management was in line the view of the Council. Nothing had been identified as incorrect.

RESOLVED: -

- 213 That the Committee noted the Audit Risk Assessment for Birmingham City Council from the External Auditors.
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SCHEDULE OF OUTSTANDING MINUTES

Information for noting.

DATE AND TIME OF NEXT MEETING

The next meeting is scheduled to take place on Tuesday, 28 July 2020 at 1400 hours via MS Teams (on-line).

OTHER URGENT BUSINESS

The Chairman made the following statement:

"I have received a letter from Councillors Jenkins and Morrell asking for this Committee to review the effectiveness of the handling of matters associated

with senior officers leaving the authority and in particular in securing value for money and managing risk to the council.

As you are aware, the role of this Audit Committee is to support the Council's corporate governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. A motion submitted to Council on 10th September 2019 confirmed that Members of this Committee can have access to relevant papers in order to fulfil its role.

I have therefore asked Officers to prepare a report to bring to our meeting on 28th July regarding the process and governance associated with any settlements made to senior officers who leave the Authority.

I have also asked that the Director HR and the Chair (or in his absence, his Deputy) of the Council Business Management (Chief Officer and Deputy Chief Officer appointments, dismissals and service conditions) sub-committee (known as the JNC Core Panel) attend the meeting in order that any questions can be asked on the procedures followed.

In any subsequent discussions, I must make it clear that there can be no reference to individuals by name or by job title where that would clearly identify them. Our role is to provide independent assurance and in doing so to ensure that the appropriate procedure and governance has been followed at every stage".

In response, Councillor Jenkins suggested a private session would be required as a published document indicated that at the 31st March 2020, certain officers were functioning officers of the Authority. This was not true and could be misleading the public. Councillor Jenkins provided a series of questions that he wished to receive answers to. He commented that eventually all details would be in the published accounts.

The Chair reiterated that a report would be produced and an agenda item on this issue would be taken at the July committee. The Chair recognised that there was a longstanding concern about the process amongst members of the committee. The Deputy Leader and Director of HR would attend the July Committee. He noted that it was important to be clear about what was in the scope and remit of the Audit Committee. The concern was around the value for money for the taxpayers of Birmingham and if there was a concern around this particular issue, that could be raised.

RESOLVED: -

214

The process followed when Senior officers exit the Authority to be shared at the 28 July Committee.

AUTHORITY TO CHAIRMAN AND OFFICERS

RESOLVED:-

215 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 15:51 hours.

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CHAIR