

BIRMINGHAM CITY COUNCIL

**AUDIT COMMITTEE
29 NOVEMBER 2023**

**MINUTES OF A MEETING OF AUDIT COMMITTEE HELD ON WEDNESDAY,
29 NOVEMBER 2023 AT 1400 HOURS IN COMMITTEE ROOM 3 & 4,
COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

PRESENT:-

Councillor Fred Grindrod in the Chair;

Councillors Robert Alden, Shabrana Hussain, Miranda Perks and Paul Tilsley

ALSO PRESENT:-

Paul Clarke, Assistant Director Programmes, Performance & Improvement
Sarah Dunlavey, Assistant Director Audit & Risk Management
Richard Fitzjohn, Equal Pay Programme Lead
Fiona Greenway, Interim Finance Director & Section 151 Officer
Julia Lynch, Assistant Director of Legal Litigation & Deputy Monitoring Officer
Dr Robert Milford, Managing Director, Milford Research & Consultancy Limited
John Preston, Group Auditor, Corporate Fraud
Craig Price, Principal Group Auditor
Jon Roberts, External Auditor, Grant Thornton
Mohammed Sajid, Assistant Director Financial Strategy
Mark Stocks, External Auditor, Grant Thornton
Mandeep Marwaha, Committee Services

NOTICE OF RECORDING/WEBCAST

684 The Chair advised and the Committee noted this meeting will be webcast for live or subsequent broadcast via the Council's Public-I microsite ([please click this link](#)) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

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

APOLOGIES

685 Apologies were submitted on behalf of Councillors Meirion Jenkins and Shafique Shah for their inability to attend the meeting.

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In advance of the next meeting (31 January 2024), Councillor Alden submitted his apologies due to a prior commitment he had before being appointed to the Audit Committee. This will be noted again at the next meeting. The Chair noted the point made and welcomed Councillor Alden to the Committee.

DECLARATIONS OF INTEREST

- 686 Councillor Tilsley declared his standing declaration. He was a Non-Executive Director for Birmingham Airport (Non-pecuniary).
During discussions for item 9, Internal Audit Update, Councillor Miranda Perks declared she was a School Governor at a maintained Nursery School.
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair notified members of the Committee currently there were no items on the agenda that had to be discussed in private. However, if members made a request for a private session, he would be guided by the Assistant Director of Legal Litigation & Deputy Monitoring Officer should there be a need to move into a private session for any items.

This moved by the Chair and agreed by the Committee.

Upon consideration, it was:

687 **RESOLVED**

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

MINUTES – AUDIT COMMITTEE 18 OCTOBER 2023

- 688 The minutes of the meeting held on 18 October 2023, having been previously circulated, were confirmed and signed by the Chair.
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COMMISSIONER'S REVIEW AND COMMENTS ON THE AGENDA

The following document from the Commissioner was submitted:

(See document No.1 of the agenda pack)

The Commissioner's Review was read out by the Chair. It stated:

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“Commissioners are pleased to see that the Committee are being recommended to adopt the CIPFA guidance and model terms of reference for the Audit Committee. This is an important step in the process of recovery. The Council’s Constitution should make it explicit that no Councillor should be able to serve on the Audit Committee until they have attended the necessary training course on how to be an effective member of the Committee. As part of the annual review of the effectiveness of the Committee the training and development needs of councillors in general and members of this committee should be considered.

Audit Committees are required to produce an Annual report. In addition to this the Chair of the Committee should have the ability to place an item on the Cabinet agenda and attend and speak to it if there are significant issues arising that needs Cabinet to give specific attention to the issue. The Committee should also consider whether major issues require them to report directly to full Council as every councillor is responsible for financial stewardship.

Members should satisfy themselves that the level of activity in Counter Fraud is appropriate for a Council of Birmingham’s size. The council will inevitably undergo some disruption through the intervention period and this always provides an opportunity for challenge to the Council’s processes.

When staff members are involved in fraudulent activities it is not acceptable for the report to say that the matter has been passed to management to deal with. Public service demands the highest standards of probity and the public’s trust and confidence in the stewardship of the authority is put at risk in such circumstances. The Committee should require follow up reports to understand what action management take and in what timescale”.

The Chair and Committee noted the points raised by the Commissioner. As part of the work programme for the Committee, the Managing Director, Milford Research & Consultancy Limited was programming a series of training and briefing sessions for Members. The Chair emphasised the importance of attending the training which will be delivered.

The Managing Director, Milford Research & Consultancy Limited highlighted agenda item 8, a work programme was available including a bitesize training programme with the view of a formal induction training programme from May 2024 onwards. The new Terms of Reference for the Audit Committee emphasised the need to comply with CIPFA guidance 2022, where it states members need to be trained.

No other comments were made by Members of the Committee.

Upon consideration, it was:

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RESOLVED:-

The Audit Committee noted the comments made by the Commissioner on the 29 November 2023 agenda.

NEW TERMS OF REFERENCE – AUDIT COMMITTEE

The following document from the Interim Director of Finance, Section 151 Officer was submitted:

(See document No.2 of the agenda pack)

The Interim Director of Finance, Section 151 Officer made introductory comments on the report. The Commissioner welcomed the new terms of reference in advance of the meeting which had also been reflected in item 6 of the agenda 'Commissioners review and comments on the agenda'. It was highlighted members of the committee must undertake training to ensure they were compliant.

The Managing Director, Milford Research & Consultancy Limited gave an overview of the new terms of reference for the Committee and highlighted the previous terms of reference for the Committee were included within the report as a comparator to see the differences. The CIPFA Position Statement 2022 was referenced within the report and the new terms of reference were based on the model from CIPFA.

The key changes within the new Terms of Reference were highlighted. These were noted as the addition of ethical and cultural aspects (Ethical Framework), fraud risks and potential harm to the council from fraud and corruption, strategy and the level of resource available. This was now included, and the Commissioner had referred to this area in their comments at agenda item 6. Details around the arrangements for audit and assurance had been enhanced for Internal and External Audit i.e. there would be more information available from Internal and External audit.

Prior to this Committee meeting, a bitesize training session on Internal Audit took place for members.

Section 14.4 of the new Terms of Reference, Internal Audit, now had thirteen different areas to consider whereas previously Internal Audit was referenced as one summarised paragraph. Members were advised the new terms of reference indicated the Committee could hold private meetings with Internal Audit as well as External Auditors to address confidential information. Further details around Internal Audit, accountability and CIPFA standards were shared with members.

Members were reminded training was essential as part of the delivery of the meetings as Audit Committee dealt with various technical areas for the Council.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

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Members raised questions and made the following comments;

- Councillor Alden made several comments and suggestions to the report. It was highlighted the new terms of reference was an improvement to the previous version.
- There were parts of the CIPFA guidance that were missing in the new TOR. It was suggested further details around ensuring the committee had a robust arrangement for value for money; improving public reporting on transparency, accounting and embedding ethical values and counter fraud in the organisation were reflected.
- Point 14.3 – Reference was made on reviewing the Annual Governance Statement (AGS). The previous AGS, 2020/2021 and 2021/22, was submitted to the Committee for approval rather than commentary for shaping and building the AGS. Examples of risks that were not highlighted in previous AGS was shared with the members.
- There should be clear indication when the AGS would be shared with the Committee as the CIPFA guidance indicated that Audit Committee should have an influential role in seeing a draft form of the AGS so that amendments can be placed forward.
- Point 14.4 – Internal Audit – Reference was made to Head of Internal Audit however, the CIPFA guidance referred to the department rather than the individual and this should be factored into the new TOR.
- Point 14.7 - Conflicts of Interests – It was proposed the Chief Whip was not compatible with being the Chair of the Audit Committee and this should be indicated under this section.
- Point 14.6 – Membership (Co-opted members) – further details were required on how the Independent Technical Advisor would be appointed. The appointment should be made via a skills-based route and identifying where the gaps in knowledge were to support members.
- The Commissioner had commented in item 6 of the agenda that Chair should have the ability to place an item on the Cabinet and Council (CBMC) agenda which would need to be reflected into the new TOR. It was suggested for the Chair of Audit Committee to write on behalf of the Committee to the City Solicitor and Monitoring Officer requesting for these powers to be embedded into the Constitution review.
- Councillor Tilsley emphasised there was a requirement for openness and transparency by all parties servicing the Audit Committee including, Council officers, Internal Audit and External Audit. Examples of the financial situation and risk register were referred to as members felt up to date information had not been shared with the Committee therefore there were difficulties allowing lines of enquires.

In response to members questions, the Chair and the Managing Director, Milford Research & Consultancy Limited made the following points:

- The comments around the membership would be considered.

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- The AGS would be reviewed via the Corporate Governance Group (CGG) as this group would be supporting the Audit Committee. This would be enhanced in the new TOR.
- Point 14.2 referred to Value for Money however this can be enhanced.
- The Public Sector Internal Audit Standards was also referred to. The Internal Audit service can be referred to in the new TOR however, this responsibility was for the Head of Internal Audit under their code.
- The appointment of the Independent Technical Advisor was via an interview process and where a job description was agreed. Interviews took place involving members from all three political groups. The skills gap would be factored into future appointments. A summary of the role of Independent Technical Advisor was provided by the Chair and members were encouraged to utilise the support available.

Upon consideration it was;

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RESOLVED:-

That the Audit Committee;

- (i) Commented on the new terms of reference for Audit Committee and proposed the following amendments to be made by the Interim Director of Finance, Section 151 Officer and the Milford Research & Consultancy Limited.
 - a) Point 14.2 - Reflect on the CIPFA guidance and ensure the committee had a robust arrangement for value for money; improving public reporting on transparency, accounting and embedding ethical values and counter fraud.
 - b) Point 14.4 - The Annual Governance Statement to be reviewed via the Corporate Governance Group (CGG);
 - c) Point 14.4 – The department of Internal Audit to be referenced rather than the individual officer;
 - d) Point 14.6 – Membership (Co-opted members) – The Independent Technical Advisor would be appointed via a skills-based route and identifying where the gaps in knowledge were to support members.
 - e) The Chair of the Audit Committee to have the ability to place an item, attend and speak to it if there are significant issues arising that needs Cabinet and City Council to give specific attention to the issue;
 - f) The Chair of the Audit Committee to write the City Solicitor and Monitoring Officer requesting for these powers to be embedded into the Constitution review.
 - g) The requirement for openness and transparency by all parties servicing the Audit Committee including, Council officers, Internal Audit and External Audit;
- (ii) Noted the new requirements and responsibilities the requirement for the committee to conduct an annual review of its compliance with the CIPFA Position Statement 2022; and

- (iii) Subject to the inclusion of the above amendments at point (i), the Audit Committee approved the terms of reference for consideration and approval by Full Council as necessary to amend the constitution: Part B Roles, Functions and Rules of Procedure May 2023 B14 Audit Committee.

CORPORATE GOVERNANCE GROUP ASSURANCE REPORT

The following document from the Interim Director of Finance, Section 151 Officer was submitted:

(See document No.3 of the agenda pack)

The Managing Director, Milford Research & Consultancy Limited informed Members the Corporate Governance Group (CGG) was a new group led by key statutory officers and officer with governance related responsibilities within the organisation. The CGG would assist in delivering the new terms of reference for the Audit Committee. The terms of reference for this group were mapped against the Annual Governance Statement (AGS) requirements and would be responsible for monitoring the implementation of actions related to the significant issues listed in the AGS.

It was noted this group would consist of statutory officer led group rather than specific named officers (i.e. Lead Officer for Internal Audit; Risk Management etc) as well as other key governance related officers. The rationale for this group was to minimise the risk of single point of failure or losses of corporate knowledge due to staff turnover which was an issue identified in previous Audit Committee meetings. The meetings for this group would be aligned to the Audit Committee dates. Members were informed, the CGG would act as a Governance, Risk and Compliance (GRC) repository of knowledge for BCC to ensure that the key elements of governance remain effective and continually developing.

A draft schedule, work programme was attached to the report. This included proposed items for agendas for Audit Committee. A summary of the work programme was provided. The work programme was aligned to bitesize training for Members of the Committee.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Prior to the meeting, the Interim City Solicitor and Monitoring Officer had identified the Monitoring Officer or a Member from the Legal Services should be included in the terms of reference for the CGG.
- Questions were raised around the interrelationship of the Audit Committee and the CGG as there were no members in the CGG during the transition phase.
- The Chair noted once the CGG group was more established, a Member from the Audit Committee was part of this group in order to hear the Members voice.

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This can be any Members of the Committee and not just the voice of the Chair or Vice Chair. This was welcomed by Members of the Committee.

- Members were in support of the creation of the group however, there were concerns around creating another group; the capacity to resource the group may cause as well as duplication concerns. In addition, it was raised what the CGG would be responsible for.
- It was important to retain corporate memory across the organisation.
- Questions were raised on when the Audit Committee would have sight of the Annual Governance Statement (AGS) during the draft stages and not just on the completed and sign off stage.
- It was queried if the documents from the CGG would be shared with Audit Committee members.
- It was important to understand what information was available to the Committee and accessible in private. It was suggested a guidance should be available to Committee to understand what information was accessible to the Members.

In response to members questions, the Managing Director, Milford Research & Consultancy Limited made the following points:

- Statutory officers listed within the membership include the Lead Officer for legal as well as the Section 151 Officer and the Chief Executive, however, this would be explicitly set out.
- The group would be set up to improve the governance as they would decide how to facilitate and support actions that occur. The bitesize training and work programme would prompt the CGG to look at what had to happen in accordance to the reporting timelines. The AGS would be a key area referred to in this group.
- As the CGG matures and became stable over time, it may be possible to invite Audit Committee Members to provide a Member perspective.
- Information would be brought into the CGG to help the organisation across the board. The CGG would be able to identify key themes and issues across various aspects of governance which then the Committee could focus upon. This group would focus on the AGS, Governance and test its effectiveness. It was recognised there was benefit in having this group and protecting against loss of any knowledge when employees leave the organisation.
- The AGS timeline was critical as this aligned to the accounts. There should be clear deadlines of when the CGG would report this through to the Committee. The AGS would be an ongoing part of the work programme.
- Birmingham City Council had to decide how the documents and papers were managed on behalf of the organisation as there may be a need for private meetings for significant issues that may arise.
- It was important to build the trust between the CGG and Audit Committee.

Upon consideration it was;

691 **RESOLVED:-**

That the Audit Committee;

- (i) Commented on the new terms of reference for the Corporate Governance Group and proposed the following amendments to be made by the Interim

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Director of Finance, Section 151 Officer and the Managing Director, Milford Research & Consultancy Limited.

- a) The Membership of Corporate Governance Group (CGG) to include the Lead officer for legal;
 - b) To include the option of inviting Audit Committee members to the CGG once the group stabilises to provide a member's perspective;
- (ii) Commented on the new work schedule for the Audit Committee and Corporate Governance Group and proposed the Annual Governance Statement to be programmed into the work schedule.
 - (iii) Noted the new requirements for the Corporate Governance Group to report to this Audit Committee as set out in the schedule; and
 - (iv) Guidance to be shared with Committee on information that was accessible to Audit Committee and Corporate Governance Group Members.
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INTERNAL AUDIT UPDATE

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

(See document No.4 of the agenda pack)

The Assistant Director for Audit and Risk Management gave an overview of the report. It was noted the last report covered the first 6 months of the year. This report focused on the activity for October 2023.

In total, 16 reports had been issued, of which 8 reports were related to schools; 5 Audit Reports and 3 follow up reports. A summary of the issues found related to the schools was grouped as themes. Individual schools were not listed or named. At present, schools were in a difficult place with Oracle. Therefore, there was no explicit criticism to their financial position as financial reports, reconciliation was not available.

The key changes to the Internal Audit Plan were around;

- 1) The addition of the Section 114 Spend Control
- 2) The addition of Management and control of seized items.
- 3) The removal of Stock Condition Data 2024 – City Housing

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Question was raised around the final reports and the number of issues identified. It was queried if there are potential risks indicated against the final reports, what was in place to mitigate the risk i.e. next steps. The example of temporary accommodation (Income and expenditure) was referred to and the

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statement mentioned at the time of testing there were still no reliable processes in place to undertake targeted visits. It was queried if the targeted visits would take place with a follow up report by Internal Audit. Further comments were made around Temporary accommodation and purchase cards. It was questioned if spot checks had been undertaken to ensure there was no fraudulent activity. Members felt this should be monitored and an update to be provided at a future meeting.

At this juncture, Councillor Perks declared she was a Governor at a Maintained Nursery School. (This has been referred to in Declarations of Interest section of the meeting)

Further questions raised by the Members:

- Schools Audit Reports – Schools were not being penalised for any issues that were out of the school's control – it was queried if these issues had been reported back to the Corporate Leadership Team and if controls and processes was in place for matters to be dealt with. It was questioned if Internal Audit would be monitoring this. Furthermore, concerns were raised around the school's actual financial position not being looked at. It was requested for the School Audit Reports and financial position to be discussed as a separate agenda items at a future meeting. The Chair supported this request.
- Point 3.4 – School Reports – indicated carried forward balances would be available in early November 2023, confirmation was sought if these were available. It was requested for an update to be shared to the Committee.
- Suggestions were made for the relevant Overview and Scrutiny Committee to be advised to monitor the work around the final audit reports.
- Corporate Starters and leavers – The risk rating of 'low' – This was questioned and what work was taking place within the Directorate to prevent this reoccurring in the future.
- Information Governance Data Breach – It was suggested the Corporate Governance Group should focus on this matter to ensure the recurring issues do not get missed.
- Other work – Oracle (ERP) – The update in the report did not provide an assessment of the current risk for the organisation i.e. implementation and what was the latest position on Oracle (ERP).
- Stock Condition Data – City Housing – Members sought the rationale for removing jobs from the plan and assurances if this would be picked and there were no gaps.

In response to members questions, the Assistant Director for Audit and Risk Management and the Principal Group Auditor made the following points:

- Temporary Accommodation – The risk was related to paying for a room within the accommodation that may not be occupied. Details around the process, matching invoices to a payment was shared with Members. It was noted, the Council could be charged for rooms where occupants may have left. The recommendation for this risk would be closed by making unannounced visits. Management was aware of this action. There were no routine spot checks on the use of the purchase cards by Internal Audit. The data for the purchase cards was very large.

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- Schools Reports – The information within school reports via Oracle (ERP) was incorrect. There were two School Facing Advisors that had been appointed to communicate between the Schools and the Council. Details around the processes and tracking of Oracle (ERP) was shared with Members. Internal Audit was in the process of designing a job to monitor this work. The Officers within the Oracle Programme (ERP) were providing regular updates on this issue. Some of the carried forward balance was available.
- Corporate Starters and leavers – People Services had issued a reminder to all Managers to ensure the required documentation was in place. People Services had been undertaking checks to validate documentation.
- Information Governance Data Breach – Item 10 on the agenda covered a centralised tracker which would build in workflows.
- Oracle (ERP) – This was listed as a ‘high’ risk on the Strategic Risk Register.
- Stock Condition Data – City Housing – This was reviewed by the Ombudsman followed by the Social Housing Regulator. A half year update would be shared with the relevant Overview and Scrutiny Committee.

The Chair concluded more information was required in the Internal Audit Reviews table i.e. departments of the Council that was impacted; a next steps column; a timeline of what was happening; themes from the reviews and improvement to work practices. In addition, an update to be provided on where the risk was and what actions had been taken around Oracle (ERP). It was suggested the changes to the Internal Audit Plan should indicate the impact on resources within Internal Audit Team.

Upon consideration, it was:

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RESOLVED:-

That the Audit Committee;

- (i) Noted the Internal Audit updates and commented for the following to be included in future updates:
 - a) Temporary accommodation – Update on Purchase cards and spot checks to ensure there was no fraudulent activity.
 - b) Proposed Internal Audit to advise Overview and Scrutiny Committees on monitor Internal Audit Reviews relevant to their areas.
 - c) Requested for additional information around next steps; themes; improvement to work practices; actions taken on Oracle (ERP) and impact on resources within Internal Audit Team to be included in the Internal Audit Reviews and relevant sections of the Internal Audit Plan.
 - (ii) Noted the School Audit Reports and financial position to be included as a separate item for discussion on a future agenda. To include an update on the carry forward balances from the local authority.
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INTRODUCTION OF INTERNAL AUDIT RECOMMENDATION TRACKING

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

(See document No.5 of the agenda pack)

The Assistant Director for Audit and Risk Management informed the Committee the report linked to the Peer Review Equality Assessment recommendation which was shared with the Committee earlier in the year. This was in line with the Committee's new Terms of Reference. Members were informed the current system used by Internal Audit did not allow a central tracking system of recommendations. Work had been taking place with the Digital and Technology Service.

The Principal Group Auditor added the report outlined the work being undertaken to replace the Audit Management System and the steps that were being taken to implement a central internal audit recommendation tracker and final report repository. It was highlighted there was not a consistent format across the Directorates therefore, this cause difficulties to gain a Council wide overview. The Directorates process was manually led. This tracking system would now enable Internal Audit to track recommendations on a Council Wide perspective as well support reporting and the implementation of recommendations. Further details around the tracking system was provided to the Committee as per the report.

The replacement system, containing the base functionality, was unlikely to be in place until at least April next year. In the interim, a Central SharePoint recommendation tracking solution was being established. An update on the Central SharePoint repository and the initial recommendation progress monitoring report would be reported at the next Audit Committee meeting in January 2024.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Concerns were raised around replacement systems, and if this had been thought out carefully, especially moving from one system to another. It was important not to lose information during the process.
- Committee Members to have the ability to access completed reports through the repository.
- Previously, Members of the Council have had severe issues tracking reports therefore, this area of development was welcomed by Members. However, it was crucial the system worked in line with other systems across the Council to avoid duplication.
- Point 6.3 – Indicated this would save the Council some funds. It was suggested this could be another area for discussion in the Corporate Governance Group.

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In response to members questions, the Principal Group Auditor made the following points:

- The Central Point Repository would be used as a register for Internal Audit reports. Audit Committee members would have secured access to view the detail in their own time.
- Discussions were taking place within Digital and Technology Services around reviewing other work practices by utilising the current technology, Microsoft 365.
- The tracker was using Microsoft Lists with a tracking facility and functionality.

Upon consideration, it was:

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RESOLVED:-

That the Audit Committee;

- (i) Noted the steps taken to implement a replacement audit management system and the interim solution that was sought to support the consistent tracking of internal audit recommendations across the Council; and
- (ii) An update on the Central SharePoint repository and the initial recommendation progress monitoring report to be reported at the next Audit Committee meeting.

ANNUAL COUNTERFRAUD REPORT 2022/23

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

(See document No.6 of the agenda pack)

The Assistant Director for Audit and Risk Management made introductory comments. Members were informed an update on fraud was routinely provided within half year reports and annual reports to the Committee however, a standalone report on Counter fraud was share with the Committee once a year.

The Group Auditor, Corporate Fraud presented the report. It was noted the report provided an update on how the Council has managed the risk of fraud during the period April 2022 to March 2023.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- It was queried if there were any cross-checking on National Insurance numbers with other public bodies within the West Midlands to see if anyone was on two payrolls.

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- Question was raised on how many staff were working from home. Reference was made to the media and an article referring to Birmingham City Council and potential fraud occurring.

At this juncture, Councillor Alden proposed inclusion and consideration of the following items as part of the recommendations.

- Section 3 – Resources for Counter fraud work – The report covers the period 2022-23. Reference was made to point 3.4 and the monitoring of fraud via analytical testing. It was questioned how this could be accurate given the issues with Oracle (ERP) within this period. This report should have referred to other systems used to undertake checks and highlight the issues with Oracle (ERP).
- Section 5.5 – Levels of Fraud – approximately 100 cases per year and at the end of the year approximately 50 cases were remaining. It was questioned if Birmingham were undertaking enough Counter fraud cases in comparison to other Core Cities such as Manchester as there was no benchmarking data available.
- It was questioned how many of the cases carried forward cases were more than one year old.
- It was suggested a follow up report to be provided to the Committee on the process, actions taken where employees were found undertaking fraud and in what timescales to action. In addition, the process of what action to take when criminal activity had taken place.
- Point 9.3 – System and IT – ERP system was not mentioned in the report though it was one of the system failures within the Council in 2022-23 and to ensure there was fraud taking place on how the ERP programme was being delivered. There were concerns around the security aspects of the ERP system which should have been investigated by the fraud team. Further assurances were sought in this area in future reports.
- The fraud team was investigating specific referrals made by individuals rather than the broader issues like Oracle (ERP). Members requested for additional reports for 2022-23 from the Counter Fraud Team including updates on the enforcement process as well as benchmarking against other Core Cities as well as Birmingham's updates on Fraud from previous years. Common themes of fraud to be made available to Members with the escalation process identified. It was highlighted the process of monitoring and accountability should be clearly set out.

In response to members questions, the Group Auditor, Corporate Fraud made the following points:

- The National Fraud Initiative was available to cross check across other bodies for data match. This would identify those who were employed by more than one authority.
- There were no figures available on how many employees of BCC were working from home. There was a mixture of work settings dependant on commitments. Working from home and potential fraud of dual working was an issue that had been identified nationally. It was important for Managers within the organisation to manage their staff. Allegations of dual working were investigated through checks with IT and other organisations.

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- Oracle (ERP) was not the only system used for the analytical monitoring. There were several Council system that was used to assess any fraudulent activity i.e., Council Tax, Housing, electoral roll, social care, schools, payroll etc. Access to Oracle (ERP) had hindered some of the tests however, there was other systems available to undertake checks.
- Most counter fraud cases were closed within a year.
- There was no direct issues related to ERP and fraud. The access to ERP system and data was improving.
- Concluded reports on fraud were shared with the Directorates highlighting the recommendations. This would also filter to the Audit Team.
- The Business Process Team would pick up some of the compliance work. In relation to Oracle (ERP), checks on payroll and payments would take place.

The Chair concluded that further information was required for the Counter fraud updates including comparative data from previous years, benchmarking against other local authorities such as Manchester and other Core Cities. This to be brought as a singular item to the Committee and then incorporated into further Annual Counter Fraud report updates.

The Chair supported comments made by the Commissioners around how the Council responded and dealt with staff fraud as well as the processes involved. If a private session around this matter was required, then this would be considered. An update on the impact and limitation of the ERP system to be shared at a later meeting.

Upon consideration, it was:

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RESOLVED:-

That the Audit Committee;

- (i) Noted the Counter Fraud work undertaken during the year of 2022-23 and members drew assurances from the policies and procedures that were in place to prevent and detect fraud and error. The Committee agreed for further work to be undertaken on the impact and limitations of the ERP system.
- (ii) Agreed for the Counter Fraud report updates to include data from previous years as a comparative. In addition, to include information from other Core Cities including Manchester as a benchmark; common themes of fraud and details of the escalation process identified.
- (iii) Agreed for further updates on how the Council responded to staff fraud and the processes involved to be shared at a future meeting.

FINANCE UPDATE – NOVEMBER 2023

The following report of the Interim Director of Finance and Section 151 Officer was submitted:

(See document No.7 of the agenda pack)

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The Interim Finance Director, Section 151 Officer informed the Committee the 2020/21 and 2021-22 accounts have remained opened for a long time and therefore, this was one of the biggest risks. These now remained open due to the Equal Pay calculations and other matters.

At this juncture, the Chair Audit Committee added previous minutes and letters from External Auditors of the Committee had indicated the reason the 2021-22 accounts were left open. This was due to the valuation of assets (infrastructure) challenges. Only in early 2023, the Committee had been informed about the Equal Pay liability. The Committee was not provided with the information that the accounts remained open due to the Equal Pay liability.

The External Auditor, Jon Roberts, informed members this was based at a certain time of the year, valuation of assets. In March 2023, information about the Equal Pay pressure had surfaced. Councillor Tilsley added this information was not reported to the Audit Committee and the External Auditor agreed with this point.

The Interim Finance Director, Section 151 had been appointed on 11th April 2023, whilst these accounts remained open.

Members were informed, for the 2022-23 financial year, Internal Audit had reviewed the reliability of transactions in detail due to the ERP Risk Management Cloud not being switched on. The impact of the issues made it difficult for the Council to come to a financial position. The Interim Director for Finance could not provide assurances on the 2022-23 accounts or any actions of fraud through the ERP system. It was important to note, there was a first stage in producing for 2022-23 accounts (referred to as stage zero), where the Section 151 Officer would be able to sign off a set of accounts for External Audit to audit. Since April 2022, other systems had been used to provide financial information i.e. spreadsheets; systems used within Adult Social Care; Care Package systems to allow forecasting.

- 2022-23 Accounts – At January 2023, estimated an overspend of £86 million. This had now reduced to £78 million and now stabilising at around £70 million.
- A paper was due to go to Cabinet in November 2023, outlining the position for 2022-23 however, this did not happen as there were reconciliation issues. The ERP system had to show the same as the manually produced position.
- January 2024 – it was aimed for an outturn to be shared for a budget to be set in February 2024.
- 2023 – 24 Accounts – Quarter 1, a forecast overspend of £87.4 million. This was rising into 2024-25. As a result, there was a carried forward of £165 million pounds budget gap which again was increasing.
- Since the last Committee, the 2023-24 base budget had been reviewed. The overspend were related to inflation issues and national issues (within Children and adults services). Further details around these issues were shared with the Committee which had been shared with Finance and Resources Overview and Scrutiny Committee.

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- A financial position report would be shared with Cabinet in December 2023.

Further details as per the presentation attached in the document pack was shared with the committee. This included; Finance Position (General Fund); Negative Reserves of -£680 million; High level Recovery Plan – 2024-25 & 2025-26 targets; Effectiveness of Spend Control Process including Governance (New Governance & Next Steps as the S151 Spend Control Board will have 4 attendees) and budget setting milestones 2024-25.

Extensive details around the savings and how to overcome the issues were shared with members of the Committee by the Section 151 Officer. The savings proposals to meet the target were to be submitted by the 24 November however, the £200 million pounds was not met therefore further proposals would be submitted by Friday 1st December 2023. Both years 2024/25, 2025/26 would need to be balanced by 7th January 2024.

The issues raised from 2021 onwards would be reflected in the Annual Governance Statement as the accounts remained open since then. In addition, Internal Audit was undertaking a review of the Spend Control process to provide assurances.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Concerns were raised around the budget that was agreed on 28 February 2023. It was mentioned that there was a current overspend of £11 million pounds which evolved to £78 million pounds. Emphasis was made to the requirement of officers to be open and transparent to Audit Committee Members. It was questioned if the External Auditors had sight of the budget.
- Further concerns on the Equal Pay liability and on the negative reserves had been raised with the External Auditors. Audit Committee had not been provided with the full financial facts of the Council's position.
- Members noted it was an asset issue that resulted the previous accounts not being signed off. In March 2023, the Equal Pay issue was highlighted by the External Auditors.
- The possibility of qualification of accounts for Equal Pay was queried for previous years which had been signed off.
- Reference was made to the savings target issued on 16 November and what is the current financial position.
- It was questioned if certain actions within the budget milestones within 2024/25 had occurred.
- The Committee would express their concerns to the Chief Executive and the Leader if the deadline for the budget setting was not met in the given timeframe.
- Confidence was sought on the Reserves balance figure as at 31 March 2022.
- Questions were raised budget consequences to the reasonable expectations of overspend relative to other large local authorities and why Birmingham was an outlier / unique.

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- How was Birmingham going to manage the Equal Pay Liability e.g. capitalisation. Questions were raised on how the £760 million calculation had been done.
- The Chair sought confirmation if a set of different models and scenarios had been shared with the External Auditors or was this one set of assumptions and one model.
- The Leadership postholder for Legal and HR had now changed, had there now been a different view on the assumptions?

In response to members questions, the External Auditors, the Section 151 Officer and the Assistant Director Financial Strategy made the following points:

- The External Auditors were not notified about considering the Equal Pay factors around enrichment, task and finish, as they were not known. The disclosures around this area had not been made to the External Auditors. Only details of the provisions and calculations in the draft accounts were shared.
- The External Auditors informed members; in relation to the open accounts, a complete accurate position was not provided by the Management. As we knew we hadn't been told the complete position immediately challenged the provision and calculations
- 2023-24 Base budget, more pressures had been identified. As at 16 November 2023, the figure was £250 million across the two years.
- Responses to the budget milestones were made. The only action that had not been completed was the commencement of the drafting of the February Cabinet report as work was taking place around finalising the savings. The was a more detailed timeline which sat behind the Budget Milestone timeline could be shared with the Committee.
- There was still a shortfall to identify.
- The Accounts for 2021/22 were prepared in the old accounting system. Officers were confident on the Outturn figure for 31 March 2022.
- 6 years' worth of analysis had taken place on the national spend reviews and the information would be placed together for the Committee.
- The best way to reduce the Equal Pay liability was to reduce the number of successful claims.
- Discussions have been taking place with Government around funding (exceptional financial support e.g. capitalisation).
- The Equal Pay liability continues until the problem of Equal Pay is resolved. In depth discussion took place around when the Equal Pay Liability could be stopped.
- £760 million pounds was based on revised Job Evaluation Scheme being in place on 01 April 2025, with a pay and grading structure agreed and certain practices being stopped earlier. The information was very complex, and the models had been shared with the External Auditors this week. A written answer would be shared with the Committee.
- It was confirmed a set of the Equal Pay liability calculations had been submitted to the External Auditors. The legal likelihood of success is applied with strands attached to this. Claims can continue up until the Job Evaluation scheme was in place.
- The assumptions were being reviewed by the new postholders for Legal and HR. Legal advice via Kings Counsel was also incorporated.

At 1610 hours, Councillor Alden left the room.

Extensive discussions took place around the details of the financial position and the members sought confidence on the financial figures presented to the Committee. Details around the SAP system and budget was provided by the Assistant Director Financial Strategy.

At 1612 hours, Councillor Alden returned to the room.

The Chair sought assurances that the assumptions that were used to base on the budget were credible. He concluded that prompt action was required so that the Council was clear to the financial position and challenges. Action must be taken carefully, and confidence was needed with the financial figures. This report/ information to be discussed a part of the training schedule of the Committee to gain a better understanding. It was suggested for a possible online session to take place to go through item 12 – Financial information in detail.

The Managing Director, Milford Research & Consultancy Limited informed the Committee there was another bitesize training scheduled ahead of the next meeting in January, with a particular focus on Finance.

Upon consideration, it was:

695

RESOLVED:-

That the Audit Committee;

- (i) Noted the current financial position of the Council as set out in this report;
- (ii) A further update to this report to be shared at the next meeting.
- (iii) Requested for an additional briefing session to take place on the financial position of the Council;
- (iv) A written response to be provided how was Birmingham going to respond to the Equal Pay Liability and how the £760 million calculation had been calculated; and
- (v) Details on budget consequences on spend reviews for the last 6 years to be shared for Birmingham and other similar local authorities.

EXTERNAL AUDITORS UPDATE

The following report of the External Auditors was submitted:

(See document No.8 of the agenda pack)

The External Auditor, Jon Roberts gave an overview of the presentation attached to the report which outlined the financial statement audit position for prior years, 2020/21 and 2021/22, and the additional information was required to complete these audits. This included an update on the financial statements

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audit for 2022/23. The overarching Value for Money work and additional powers, and other work necessary for Value for Money to complete 2020/21 to 2022/23 was also summarised.

Previous areas reported to the Committee had progressed however, there were new areas of assessment identified.

An extensive summary of all the areas was shared with the Committee. The equal pay models and assumptions had been shared with the External Auditors. It was noted both the External Auditors as well as the Audit Committee had faced challenges with the openness and transparency of information that had been shared by management. A lot of the External Audit work was based on the assurances provided by management. The risk assessment had been increased in certain areas. The models had been received and External Auditors experts were going to test the models. Further detail around the External Audit was provided to the Committee.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- The Chair requested for the papers to be presented in a format where specific words can be filtered.
- Reference was made to the new information within the External Auditors report such as the Highways PFI and reflecting on previous accounts. It was queried if there was a point this would cease due to cost implications and finding further new information.
- Queries were raised around the additional information required (i) Grant – would this include funding of the Athletes Village (ii) Corporate Landlord Function – concerns within this area including council companies (iii) Issues around public register of interest/ conflicts of interests with staff.
- The term ‘deliberately’ had been referred to in the report – members sought comments on this word referred to in the report and would this be a ‘normal’ statement within reports.
- A clear reason for the 2020-21 accounts remaining open due to the information provided by External Auditors up until March 2023 this had changed.
- The Chair highlighted reviews taking place across the Council. It was highlighted the Audit Committee had a good set of minutes and can be reviewed to see discussions that had taken place where assurances were provided on Equal Pay in the presence of the External Auditors. Up until March 2023, the Audit Committee had been reassured at several meetings that Equal Pay was no longer a risk. Now the Committee had been advised Equal Pay was a risk.

In response to members questions, the External Auditors made the following points:

- Under the auditing standards, certain processes had to be undertaken. Details around post balance sheet events were shared with Members.

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- Conflict of interest registers were referred to by the External Auditors however, this would be enhanced.
- The meaning of 'deliberately' in the report - Anything that was deliberately undertaken with a purpose may have been undertaken to mask pressures on the revenue. External Auditors were looking at the level of potential manipulation within the accounts. This was in place due to the current situation of the Council.
- The 2020-21 accounts should have been closed by November and the assurances provided by the previous management.
- The External Auditors had not received communication on the developments around Equal Pay despite formal request for communication.

The External Auditor, Mark Stocks gave an overview around the 2022-23 accounts. Members were reminded the Audit would take place in two phases and a summary of the individual phases was provided. The situation related to the 2023-24 accounts had the same situation as the 2022-23 accounts. Several special reviews were taking place. The External Auditor could not provide assurances over IT controls, security, and data migration as the work on controls indicated significant weaknesses. The External Auditor had concerns if a control environment was not in place by March 2024.

Members raised further questions and made the following comments;

- Was there evidence that information was deliberately manipulated?
- Would a timeline of events be available to set out what had happened?
- Based on the finding, how confident was the External Auditors that the Councils Financial position in the financial update report to the Committee was accurate?
- Reference was made to a Freedom of Information (FOI) request regarding the Accounts and Equal Pay made to Grant Thornton (External Auditors). Details of the FOI were read out by Councillor Tilsley.
- Reference was made to the Oracle (ERP) and reports to Cabinet. It was highlighted the initial budget was £15 million pounds, final approved budget in 2019 was £19 million pounds and this was further revised.
- Separation of duties within ERP system – Previous issues had been raised with this area. The Audit Committee had been reassured the implementation of Oracle (ERP) would remove the risk therefore there was no issues with SAP.
- Descoping of the Risk Management Cloud – Was the Risk Management cloud switched on and how many issues had been raised since it had been switched on.
- There were concerns on the number of issues that had been flagged on the Oracle Risk Cloud which had been reviewed by Internal Audit and proposed a report to the Committee on what Counter fraud and Internal Audit had been undertaking to tackle this issues. This information to be shared at the next meeting.
- Questions were raised around the disclaimed risk and if this was for previous and/or for future years or this financial year.
- Equal Pay and methodology – would the External Auditors undertake work to track the progress of the implementation of Job Evaluation Scheme.
- In relation to the historical review, it was suggested the advice given/ not given and possible warning provided or not provided on equal pay since 2017 to be

investigated as well as any information on Equal Pay being leaked to avoid this in future.

In response to members questions, the External Auditors made the following points:

- The External Auditors had not been informed on the developments on Equal Pay claims and the financial risks around Oracle. There was a lack of openness of culture and communication.
- The special investigation would provide a timeline of what had happened and the level of failure.
- The External Auditors had to run through the Equal Pay model and acknowledged a lot of work and due diligence from BCC team of officers had taken place and some tough decisions had to be made. If the Section 151 Officer was content with the figure. Each of the key system, multiple systems have had some form of failure. The External Auditor could not confirm if the figures provided were reliable.
- In response to the FOI query and redaction of the response, it was noted if confidential information was released, this would undermine the Councils defence thus this information should not be provided. It was important the relationship with BCC officers was maintained and sharing of information. Members of the Council were responsible for setting the budget including the conduct and governance of the Council. The External Auditors had shared the information with the Committee as and when received.
- Segregation of duties (ERP) – It was not usual for employees to have multiple roles and access. However, in SAP this could be tracked but as the Oracle Risk Cloud was not in place for 2022-23, there was no facility to track the changes. This was a significant concern from External Audit. From September 2023, the Oracle Risk cloud was now in place. It was highlighted this only covered the Oracle aspects and not the add-ons to the system. The Assistant Director for Audit and Risk Management confirmed there were hundred thousand issues that had been flagged by the Oracle Risk Cloud which had now decreased by tens of thousands.
- The External Auditor gave a summary as to what a disclaimed audit opinion was. There was a risk to the 2023-24 accounts. An appropriate control environment had to be in place for 2024-25 accounts without placing pressure on BCC Finance Team.
- Job evaluation methodology – This would need to be procured followed by implementation. An agreed Job Evaluation methodology is planned to be in place by 1st April 2025.
- Historical Review – This would be a comprehensive review including interviews and how decisions were made including the control of legally privileged work.

Upon consideration, it was:

696

RESOLVED:-

That the Audit Committee;

- (i) Noted the contents of the report as set out by the External Auditors; and

- (ii) Proposed for a report to be shared at the next meeting by Counter fraud and Internal Audit on the concerns on the number of issues that had been flagged on the Oracle Risk Cloud.

INTERIM ORACLE REPORT

The following report of the External Auditors was submitted:

(See document No.9 of the agenda pack)

The External Auditor, Mark Stocks gave a high-level summary of the report. Key points made on the ERP system and finance operations:-

- There was no effective control in place at present. As a result, this prevents Councils doing financial accounts and financial management reports.
- This will continue at least until there was a cash reconciliation system in place. We think that Procurement is about to start however this was at least 12 months away. There was manual processing of cash transactions taking place which had to be financed.
- Safe & Complaint – External Audit was of the view there had not been the necessary focus on the fixes. As a result, the finance team have had to undertake their own fixes therefore the critical aspects for the finance team, People Team had not been resolved to be safe and compliant. This was an area of concern for the External Auditors.
- Future Optimisation – The programme requires more of a focus which was likely to be done in around 2 years.

The Chair wanted to address a point to the Chief Executive however, in her absence this question was directed to the Section 151 officer. It was questioned if there was a plan in response to the External Auditors comments findings and could the Audit Committee see these plans at the next meeting. In addition, link this to the other aspects raised by the Committee on the ERP system. This was agreed by the Section 151 Officer.

It was requested for the Chief Executive to be in attendance for the next meeting.

Upon consideration, it was:

697

RESOLVED:-

That the Audit Committee;

- (i) Noted the contents of the External Auditors letter dated 26th October 2023; and
- (ii) Requested for the Chief Executive and the Section 151 Officer to provide a response to the External Auditors letter date 26th October 2023 including other aspects of the ERP system raised by the Committee.

CORPORATE PERFORMANCE MANAGEMENT FRAMEWORK

The following report of the Director of Strategy, Equalities and Partnerships was submitted:

(See document No.10 of the agenda pack)

The Assistant Director Programmes, Performance & Improvement informed members the report provided an overview of the council's Corporate Performance Framework. The Corporate Performance Framework is an integral part of the council's overall governance, control, and assurance mechanisms.

It was highlighted an effective performance framework has four key components:

- (1) Clear roles, accountabilities, and responsibilities
- (2) Clearly stated ambition and aims
- (3) Consistent and accurate reporting against the framework
- (4) Robust measures and deliverables that are clearly linked to improving outcomes for citizens (the "golden thread").

The report was shared with the Committee for information. It was proposed this could be one of the bitesize training sessions led by the Managing Director, Milford Research & Consultancy Limited as part of the Audit Committees Work Programme.

A summary of the improvement and recovery plan was shared with members.

The Chair highlighted previous concerns raised by the Committee around management directives which had failed at a local level. It was important to understand how this would tackle and challenge the culture across the organisation. A briefing discussion was proposed by the Chair.

It was proposed for Audit Committee to recommend additional actions to be tracked via the Corporate Performance Management Framework. This was welcomed by the Assistant Director Programmes, Performance & Improvement. The Corporate Governance Group would be a mechanism to better join up these areas and monitor and track at the same time.

Members were reminded to undertake the 1-2-1 sessions with the Managing Director, Milford Research & Consultancy Limited.

Upon consideration, it was:

698

RESOLVED:-

That the Audit Committee noted the report and considered information, briefings or training on this topic that might be helpful in supporting the Committee to best undertake their role and responsibilities.

SCHEDULE OF OUTSTANDING MINUTES

Minute 575 (ii) - 28/03/2023; 577 (vi) - 28/03/2023; 603 (iii) - 28/06/2023 – Milford Research & Consultancy Limited to incorporate into the bitesize training sessions for the Committee.

Minute 666 06/10/2023 - Assurance Session – Leaders Portfolio – Milford Research & Consultancy Limited to incorporate into the bitesize training sessions for the Committee to explore how this item to be incorporated into the work programme of the Committee. This would be factored into the Members Assurance work.

Minute 679 (iii) 18/10/2023 - Responses to Councillor Yip’s questions emailed to Committee Members on 21/11/2023. Therefore, this action was noted as ***completed and discharged***.

Minute 679 (v) 18/10/2023 – Links to a secure repository of Internal Audit reports referred to the Children and Young People’s Travel Service were emailed to Committee Members on 20/11/2023. Therefore, this action was noted as ***completed and discharged***.

699 **RESOLVED:-**

That the Audit Committee noted the schedule of outstanding minutes.

700 **DATE OF THE NEXT MEETING**

The next meeting was scheduled to take place on Wednesday, 31 January 2024 at 1400 hours in Committee Room 3 & 4, Council House.

701 **OTHER URGENT BUSINESS**

There was no other urgent business.

AUTHORITY TO CHAIRMAN AND OFFICERS

702 **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 1725 hours

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CHAIR