Birmingham City Council
Audit Committee

21 February 2024

Subject:	Annual Governance and Internal Audit Processes
Report of:	Interim Director of Finance (Section 151 Officer) Fiona Greenway
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Does the report contain confidential or exempt information? ☐ Yes ☒ No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential:

1 Executive Summary

1.1 This report sets out the recommended approach to updating the Annual Governance Statement (AGS), including the internal audit plan methodology and conducting a review of the effectiveness of the Birmingham City Council Local Code of Corporate Governance.

1.2 This methodology recognises that the Audit Committee has not had opportunity to review an AGS, and therefore the local Code of Corporate Governance and its effectiveness, since 28th September 2022. The AGS presented at that time was a review reflecting the financial period of 2021/22.

1.3 The next AGS needs to include the significant governance issues identified in the independent Governance Review conducted by the Centre for Governance and Scrutiny during 2023 and the successful delivery of the Stabilisation Plan recommend by the Governance Review. It also needs to include the issues that led to the appointment of Commissioners, the publication of the statutory S114 and Section 5 Notices and the External Audit Statutory Recommendations.

1.4 The AGS will also include output from the internal audit function, usually in the form of the Head of Internal Audit's annual opinion report, which is informed by a risk-based internal audit plan.

1.5 Additionally, the Audit Committee, under its new Terms of Reference, is required to produce an annual report to Full Council. This report can inform the AGS. This

approach leads to the timeline and activities, including review material from the CIPFA (Self-assessment questionnaire) that can be an aid in the creation of the Audit Committee's own annual report.

2 Recommendation(s)

2.1 That the Audit Committee supports the Corporate Governance Group and the methodology for the creation of the AGS.

2.2 That the Audit Committee's Annual Letter inform the AGS review and that Audit Committee members attend a specific facilitated review workshop in March to compile the letter, using CIPFA tools and questionnaires as necessary to aid in this process.

2.3 That the Audit Committee supports the action plan arising from the AGS review.

2.4 That the Audit Committee supports the internal audit plan methodology to provide assurance over the significant governance issues and their assurance role over the creation of the AGS.

3 Background

3.1 CIPFA's "Position Statement 2022: Audit committees in local authorities and Police 2022" states that:

3.1.1 *The Audit Committee is a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk, and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.*

3.2 In a local authority, the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council.

3.3 The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

3.4 Additionally, the CIPFA guidance for the compilation of the Annual Governance Statement identifies that there is a need to review the effectiveness of the local code of corporate governance and reported annually.

3.5 However, the requirement to ensure governance is effective is an ongoing process and the Corporate Governance Group should enable the local code to

become a 'living' document and supported by maintained and improving systems and assurance frameworks.

3.6 The AGS has not been reviewed by the Audit Committee since 28th September 2022 for the period 2021/22. Therefore, the methodology set out below enables the AGS to be brought up-to-date and consideration given by the Audit Committee to the Local Code of Corporate Governance effectiveness and any action plans to improve significant governance issues.

4   Recommended Approach and Roles

Role of the New Corporate Governance Group

4.1 In November 2023 the Audit Committee approved the terms of reference for a new Corporate Governance Group (CCG). The main purpose of the CCG is to support the Audit Committee in the discharging of its governance responsibilities.

4.2 The CGG is to promote, monitor, review and improve key elements of the structures and processes that comprise the authority's governance arrangements as summarised below.

4.3 This includes the development of the Annual Governance Statement, monitoring the status of any significant governance issues arising from previous AGS, other assurance providers, external reviews, and the assessment of the current Local Code of Governance effectiveness.

4.4 It is proposed that the Local Code of Corporate Governance is reviewed against CIPFA recommended criteria (see appendix 1 for the core principles) by the Corporate Governance Group as part of this work.

4.5 The CGG met on the 7th of February 2024 to develop an action plan to deliver a draft AGS to the Audit Committee in April 2024 and final version for the June Audit Committee. However, given the time since the last published AGS, the review will cover more than one financial year.

4.6 To assist the CGG in preparing the AGS Strategic Directors, Directors and Heads of Service will be required to complete an Assurance Questionnaire.

Role of Internal Audit

4.7 The Governance Review has identified the urgent need to enhance Internal Audit processes and develop a risk-based programme of work. In accordance with the Public Sector Internal Audit Standards (PSIAS) this risk-based plan must reflect the requirement to produce an annual internal audit opinion. However, it is also vital that Internal Audit provides assurance to the Audit Committee as part of its work.

4.8   This section of the report sets out the methodology to be adopted in developing and maintaining the 2024/25 Internal Audit plan in the first six months and how it will support the new AGS.

4.9   The Internal Audit Plan will be submitted in more detail to the March Audit Committee for approval and ensure alignment with the Stabilisation Plan recommend by the Governance Review.

4.10   The internal audit plan notes that the Council has serious financial and governance problems and is subject to government intervention. The challenging transformation and savings programme alongside addressing Oracle and Equal Pay issues gives a risk profile that will require the internal audit plan to be responsive and fully flexible.

4.11   The Internal Audit plan will focus on providing assurance on delivery of the Stabilisation Plan, the delivery of the Intervention Directions, implementation of the Improvement and Recovery Plan, and responding to the significant issues raised by the External Auditor.

4.12   Assurance activities will include but not limited to:

- evaluating the effectiveness of actions and controls from the stabilisation plan to assure they are delivering the desired impact and improvement.

- that the programme frameworks are effective and avoid duplication and have appropriate assurance mechanisms in place, including feeds to the Audit Committee.

- delivery of Improvement and Recovery Programme activities and their effectiveness. Including regular assurance health checks on projects, governance, and control frameworks.

- action taken to address all recommendations raised by the External Auditor and testing the effectiveness of improvements.

4.13   An initial plan will be set out for six-months (to help with staff management) but will remain fluid and dynamic so it can respond to emerging issues and risks. Updates to the plan will be reported to Audit Committee on a regular basis.

4.14   The internal audit plan also recognises that the programme of work to rebuild risk management required by the Stabilisation Plan will lead to a greater visibility and a more in-depth understanding of risks. This rebuild and any emerging risks, will continue to be assessed and used to inform the internal audit plan and ongoing assurance activities.

4.15   In addition to risk-based work, the plan will be structured to accommodate other key assurance requirements:

- Completion of high-risk only work from the previous plan.
- Corporate Fraud reactive and proactive investigations.
- Recommendation follow-up – noting the requirement to now report back to the Audit Committee on recommendation implementation outstanding.

- A school visiting programme.
- Completion of grant certificates.
- Provision of support, advice, guidance, and advisory work particularly focused again to the key risks of BCC.

4.16   To support the implementation of recommendations a central recommendation tracking database is being implemented with automated reminders and management reporting.   The Audit Committee will be sighted on these management reports and receive updates to enable them to monitor implementation progress.

4.17   Internal capacity and capability to deliver assurance over the areas identified will be reviewed to identify any resource or skill gaps together with requirements for reliance on other assurance sources.

4.18   Engagement with the Corporate Governance Group will be vital, and the Head of Internal Audit will be part of this group. Assurance work will be undertaken to support the CGG in the discharging of its own new terms of reference, with a particular focus on testing the reliability and validity of information this group uses to create the new AGS.

4.19   Information and plans will be shared with the External Auditor to coordinate activities and minimise duplication as per the PSIAS.

Role of the Audit Committee

4.20   In November 2023, the Audit Committee approved the new terms of reference for the Audit Committee. Within the new terms of reference are the key elements of governance reporting are specified as follows:

Governance reporting:

4.20.1   To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.

4.20.2   To consider whether the annual evaluation for the AGS fairly reflects and concludes if governance arrangements are fit for purpose, supporting the achievement of the authority's objectives, and that corrective actions are underway where necessary.

4.20.3   That the Corporate Governance Group supports the Audit Committee in the review of the AGS to help ensure the effectiveness review of the Local Code of Corporate Governance remains a living and continually developing activity.

4.20.4   That a schedule of works for the Audit Committee includes a clear timeline for the production, consideration and monitoring of the AGS. This schedule will be updated to reflect this AGS process.

4.21   In addition, the Audit Committee's accountability arrangements set out the following:

Accountability arrangements

4.21.1   To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.

4.21.2   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.

4.21.3   To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

4.21.4   To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement 2022.

4.22   The last time the Audit Committee reported to Full Council was on the 7th of February 2023 and reflected the work done by the Audit Committee over the period: October 2021 and September 2022.

4.23   This AGS review can help to align these key reporting elements regarding governance into a more standard timeline and enable the Audit Committee to have a current perspective on the effectiveness of governance arrangements as at the end of the municipal year 2023/24.

4.24   To aid in the assessment of the work by the Audit Committee and the review of its own effectiveness the CIPFA self-assessment questionnaire could be used to help with this and is included in appendix 2 for reference.

4.25   The role of the Audit Committee in this AGS review should be:

4.25.1   To prepare their 'annual' report for the Full Council and feed this into the AGS assessment. This is to be compiled following a facilitated reflection workshop in March utilising the scheduled training session prior to the meeting.

4.25.2   To support the CGG in in assessing the AGS and effectiveness of Corporate Governance at Birmingham City Council through the discussion of a draft AGS in April 2024 and providing critical Audit Committee perspectives.

4.25.3   To approve the final AGS in June 2024 for inclusion in the final accounts.

4.25.4   To monitor the significant issues action plan implementation arising from the AGS.

4.26   This methodology will ensure that a current and 'living' version of the AGS and Local Code of Corporate Governance is in place and that BCC continues to improve its governance.

Reporting to/from the Audit Committee Timeline

4.27   Internal Audit will produce a focused risk based internal audit plan for the March Audit Committee

4.28   The Audit Committee will produce an annual report to inform the AGS for April. The Audit Committee annual report will also be presented to Full Council.

4.29   The CGG will generate an initial draft of the AGS for the April Audit Committee that captures the latest position of the Local Code of Corporate Governance

4.30   The draft Annual Governance Statement will then be presented to and agreed with the Corporate Leadership Team

4.31   The CGG will produce a final AGS report and significant issues action plan for the June Audit Committee. This will then be signed off by the Leader and CEO for BCC and reported to Full Council.

5   Legal Implications

5.1   The AGS is a requirement of The Accounts and Audit Regulations 2015, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an AGS.

6   Financial Implications

6.1   There are no direct financial implications from the subject of this report.

7   Public Sector Equality Duty

7.1   N/A

8   Other Implications

8.1   How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

8.2   This process helps to deliver the AGS and aligns with the priorities, plans and strategies as it aids in the improvement of the governance framework that delivers these aspects. It recognises:

   8.2.1.1.   Sound internal controls and financial management underpins all the Council's priorities, plans and strategies.

   8.2.1.2.   Management is responsible for the implementation of a sound and effective system of internal control to manage risk effectively.

   8.2.1.3.   Internal Audit provide independent and objective assurance to management and those charged with governance on the systems of internal control that have been established.

9   Background Papers

9.1   N/A

10   Appendices

   1. **CIPFA/SOLACE – Delivering Good Governance in Local Government – for reference only.**

   2. **CIPFA Audit Committee Self-Assessment 2022 – for reference only**

Appendix 1 – CIPFA/SOLACE Delivering Good Governance in Local Government – Core Principles:

DEFINING THE CORE PRINCIPLES AND SUB-PRINCIPLES OF GOOD GOVERNANCE

6.1   The diagram below, taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'), illustrates the various principles of good governance in the public sector and how they relate to each other.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times

The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report.

Good practice questions	Does not comply	Partially complies and extent of improvement needed*			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
Audit committee purpose and governance					
1 Does the authority have a dedicated audit committee that is not combined with other functions (eg standards, ethics, scrutiny)?					
2 Does the audit committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?					
3 Has the committee maintained its advisory role by not taking on any decision-making powers?					
4 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?					
5 Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?					
6 Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					
7 Does the governing body hold the audit committee to account for its performance at least annually?					

* Where the committee does not fully comply with an element, three options are available to allow distinctions between aspects that require significant improvement and those only requiring minor changes.

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
8 Does the committee publish an annual report in accordance with the 2022 guidance, including:					
• compliance with the CIPFA Position Statement 2022	☐	☐	☐	☐	☐
• results of the annual evaluation, development work undertaken and planned improvements	☐	☐	☐	☐	☐
• how it has fulfilled its terms of reference and the key issues escalated in the year?	☐	☐	☐	☐	☐

Functions of the committee

Good practice questions	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
9 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?					
Governance arrangements	☐	☐	☐	☑	☐
Risk management arrangements	☐	☐	☐	☐	☐
Internal control arrangements, including: • financial management • value for money • ethics and standards • counter fraud and corruption	☐	☐	☐	☐	☐
Annual governance statement	☐	☐	☐	☐	☐
Financial reporting	☐	☐	☐	☐	☐
Assurance framework	☐	☐	☐	☐	☐
Internal audit	☐	☐	☐	☐	☐
External audit	☐	☐	☐	☐	☐
10 Over the last year, has adequate consideration been given to all core areas?	☐	☐	☐	☐	☐
11 Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?	☐	☐	☐	☐	☐
12 Has the committee met privately with the external auditors and head of internal audit in the last year?	☐	☐	☐	☐	☐

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5

Membership and support

13 Has the committee been established in accordance with the 2022 guidance as follows?

• Separation from executive	☐	☐	☐	☐	☐
• A size that is not unwieldy and avoids use of substitutes	☐	☐	☐	☐	☐
• Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation	☐	☐	☐	☐	☐
14 Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?	☐	☐	☐	☐	☐
15 Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?	☐	☐	☐	☐	☐
16 Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?	☐	☐	☐	☐	☐
17 Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?	☐	☐	☐	☐	☐
18 Is adequate secretariat and administrative support provided to the committee?	☐	☐	☐	☐	☐
19 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	☐	☐	☐	☐	☐

Effectiveness of the committee

20 Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	☐	☐	☐	☐	☐
21 Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?	☐	☐	☐	☐	☐
22 Are meetings effective with a good level of discussion and engagement from all the members?	☐	☐	☐	☐	☐
23 Has the committee maintained a non-political approach to discussions throughout?	☐	☐	☐	☐	☐

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	☐	☐	☐	☐	☐
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?	☐	☐	☐	☐	☐
26 Do audit committee recommendations have traction with those in leadership roles?	☐	☐	☐	☐	☐
27 Has the committee evaluated whether and how it is adding value to the organisation?	☐	☐	☐	☐	☐
28 Does the committee have an action plan to improve any areas of weakness?	☐	☐	☐	☐	☐
29 Has this assessment been undertaken collaboratively with the audit committee members?	☐	☐	☐	☐	☐
Subtotal score					
Total score					
Maximum possible score					200**