

# **BIRMINGHAM CITY COUNCIL**

## **AUDIT COMMITTEE**

**TUESDAY, 28 JULY 2020 AT 14:00 HOURS**  
**IN ON-LINE MEETING, MICROSOFT TEAMS**

### **A G E N D A**

#### **1 NOTICE OF RECORDING/WEBCAST**

The Chairman to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site ([www.civico.net/birmingham](http://www.civico.net/birmingham)) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

#### **2 DECLARATIONS OF INTERESTS**

Members are reminded that they must declare all relevant pecuniary and non pecuniary interests arising from any business to be discussed at this meeting. If a disclosable pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.

#### **3 APOLOGIES**

To receive any apologies.

#### **4 EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 100I of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.

b) If so, to formally pass the following resolution:-

**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.

- 5 - 18**                      5        **MINUTES - AUDIT COMMITTEE - 30 JUNE 2020**
- To confirm and sign the minutes of the last meeting of the Committee held 30 June 2020.
- 19 - 46**                      6        **AUDIT COMMITTEE – FUTURE WAYS OF WORKING**
- (30 minutes allocated) (1405 - 1435)
- Report of the Assistant Director Audit and Risk Management
- 47 - 54**                      7        **RISK MANAGEMENT**
- (15 minutes allocated) (1435 - 1450)
- Report of the Assistant Director Audit and Risk Management
- 55 - 68**                      8        **AUDIT FINDINGS REPORT RECOMMENDATIONS - PROGRESS REPORT**
- (5 minutes allocated) (1450 - 1455)
- Report of the Interim Chief Finance Officer.
- 69 - 84**                      9        **EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**
- (10 minutes allocated) (1455 - 1505)
- Report of the External Auditor
- 85 - 94**                      10       **PROCESS FOR THE EXIT OF SENIOR OFFICERS**
- (30 minutes allocated) (1505 - 1535)
- Report of Interim City Solicitor & Monitoring Officer and the Director of Human Resources.
- 95 - 96**                      11       **SCHEDULE OF OUTSTANDING MINUTES**
- Information for noting.
- 12       **DATE OF THE NEXT MEETING**
- The next meeting is scheduled to take place on Tuesday, 29 September 2020 at 1400 hours via MS Teams (on-line).

13 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chairman are matters of urgency.

14 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

'In an urgent situation between meetings, the Chairman jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.



# BIRMINGHAM CITY COUNCIL

<b>AUDIT COMMITTEE</b> <b>30 JUNE 2020</b>
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## **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

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### **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](http://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.**

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### **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.

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### **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.

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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.

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## **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.

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## **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 CIPFA 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.

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**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 Dunlavy, 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 23<sup>rd</sup> 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.

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**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.

## **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.

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## **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.

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**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 Sectary of State to extend the reporting deadline. Initially, the deadline was 31<sup>st</sup> July but since extended formally to 30<sup>th</sup> November. There was a longer timescale, however the audits relate to the 2019/20 financial year and value of money arrangements assessed were at 31<sup>st</sup> 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. Whist arrangements were in place at 31<sup>st</sup> 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.

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**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).

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**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 10<sup>th</sup> 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 28<sup>th</sup> 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 31<sup>st</sup> 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.
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The meeting ended at 15:51 hours.

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CHAIR

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>28<sup>th</sup> July 2020</b>
<b>Subject:</b>	<b>Audit Committee – Future Ways of Working</b>
<b>Wards Affected:</b>	<b>All</b>

**1. PURPOSE OF REPORT**

- 1.1 This report outlines proposals for further enhancing the effectiveness of the Audit Committee and to seek assurance from managers on compliance with governance and internal control arrangements, and the management of strategic and key operational risks.

**2. EXECUTIVE SUMMARY**

- 2.1 The Audit Committee is a key component of the Council's governance framework. Its purpose is to provide those charged with governance with an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.
- 2.2 Members have expressed a wish to enhance the effectiveness of the Audit Committee.
- 2.3 An independent assessment against CIPFA's recommended best practice framework has been completed.

**3. RECOMMENDATIONS**

Audit Committee Members agree to:

- 3.1 Produce an annual report to Council Business Management Committee or Full Council as appropriate on assurance activities undertaken with the assistance of Birmingham Audit.
- 3.2 Develop proposals for an independent advisor(s) to supplement existing skills and abilities.
- 3.3 Undertake a communications programme on the role of the Audit Committee with the assistance of Birmingham Audit.

<p>3.4 Seek assurance from managers and Cabinet Members on the management of risks, effectiveness of governance arrangements, and compliance with internal controls.</p> <p>3.5 Revisit the Committee's Forward Plan and introduce greater capacity by increasing the number of meetings from 7 to 9 per year.</p> <p>3.6 Co-ordinate activity by mapping sources of assurance, based on the 3 lines of defence model, with the assistance of Birmingham Audit.</p> <p>3.7 Develop and participate in a training programme to further enhance skills and knowledge.</p> <p>3.8 Review the format of officer reports with the assistance of Birmingham Audit.</p>
<p><b>4. LEGAL AND RESOURCE IMPLICATIONS</b></p> <p>4.1 The purpose and role of the Audit Committee's is set out within the Council's Constitution - Part B Roles, Functions and Rules of Procedure.</p> <p>4.2 'Audit Committees - Practical Guidance for Local Authorities and Police 2018' – CIPFA represents best practice for audit committees in local authorities throughout the UK.</p>
<p><b>5. RISK MANAGEMENT &amp; EQUALITY ANALYSIS ISSUES</b></p> <p>5.1 Risk Management and Equality Analysis are important parts of the internal control framework. The Audit Committee require assurance on their effectiveness.</p>
<p><b>6. COMPLIANCE ISSUES</b></p> <p>6.1 The Council policies, plans, and procedures set out the rules that govern the organisation. The Audit Committee require assurance that these are up to date and being applied on a consistent basis.</p>

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## **Audit Committee – Future Ways of Working**

### **1. Introduction**

- 1.1 The Audit committee is a key component of the Council's governance framework. Its purpose is to provide those charged with governance with an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

### **2. Audit Committee Best Practice / Guidance**

- 2.1 The Chartered Institute of Public Finance (CIPFA) publication - 'Audit Committees - Practical Guidance for Local Authorities and Police 2018' - represents best practice for audit committees in local authorities throughout the UK. The publication sets out CIPFA's view of the role and functions of an audit committee, which includes assurance over:

- i) Good Governance and the Annual Governance Statement.
- ii) Internal Audit.
- iii) Risk Management.
- iv) Assurance Frameworks and Assurance Planning.
- v) Value for Money and Best Value.
- vi) Countering Fraud and Corruption.
- vii) External Audit.
- viii) Financial Reporting.
- ix) Partnership Governance and Collaboration Agreements.
- x) Governance and Ethical Values.
- xi) Treasury Management.

The guidance also includes an assessment checklist.

### **3. Audit Committee Functions**

- 3.1 The functions of the Audit Committee are set out within the Council's Constitution (September 2019, Amended April 2020) Part B, see Appendix A, and the Council's Corporate Governance Code and Framework (Constitution - Part C Codes and Protocols), see Appendix B.
- 3.2 These functions are currently fulfilled through a series of reports and presentations provided during the year by the Chief Financial Officer, Assistant Director Audit and Risk Management, City Solicitor, and the Council's External Auditor.

### **4. Audit Committee Effectiveness**

- 4.1 Audit Committee Members have expressed a wish to enhance their effectiveness by drawing upon wider sources of assurance; specifically, that of management and where appropriate, cabinet members and producing an annual report on the work it has undertaken.

4.2 In order to assist and drive forward an improvement programme the CIPFA best practice assessment checklist has been used to evaluate the current effectiveness of the Audit Committee in fulfilling its functions. This assessment was undertaken independently by PWC LLP, a full copy of the report is included in Appendix C.

4.3 The evaluation identified many areas of good practice, including:

- A clear term of reference which sets out the Audit Committee's purpose.
- Access to all audit reports.
- The ability to request relevant officers attend meetings to explain issues.
- Reviewing the Annual Governance Statement on an annual basis and monitoring progress on key areas of concern.
- Its independence and good relationships with key officers.
- Regular reporting from internal and external audit.
- An action tracker.

4.4 However, it did identify a number of key recommendations to further develop the effectiveness of the Committee. These were:

- Production of an annual report.
- Appointment of independent advisor.
- A communications programme on the role of the Committee.
- Seeking a wider source of assurance.
- Revisiting the Committees Forward Plan.
- Introducing greater capacity by increasing the number of meetings.
- Mapping out sources of assurance
- Identification of any skill gaps.
- Developing officer reports.

## 5. **Proposed Management Assurance Framework**

5.1 Each Director together with the appropriate Cabinet Member attend Audit Committee on a rotational basis to provide on update and assurance on:

- **Governance and Internal Controls**

The systems and process outlined within their Directorate AGS self-assessment remain in place and continue to operate effectively.

Any areas of concern flagged within their AGS self-assessment are being appropriately addressed within a timely basis.

Any relevant area selected by the Audit Committee from the Council's Corporate Governance Code and Framework.

That they have processes and procedures in place to ensure that their staff follow laid down policies and procedures.

- **Risk Management**

That an appropriate system has been established to identify significant risks that could prevent the delivery of a business objective or could lead to the break-down of a key control.

Action plans have been established to manage or mitigate the significant risks that have been identified.

Progress in the management of any Strategic or key operational risks.

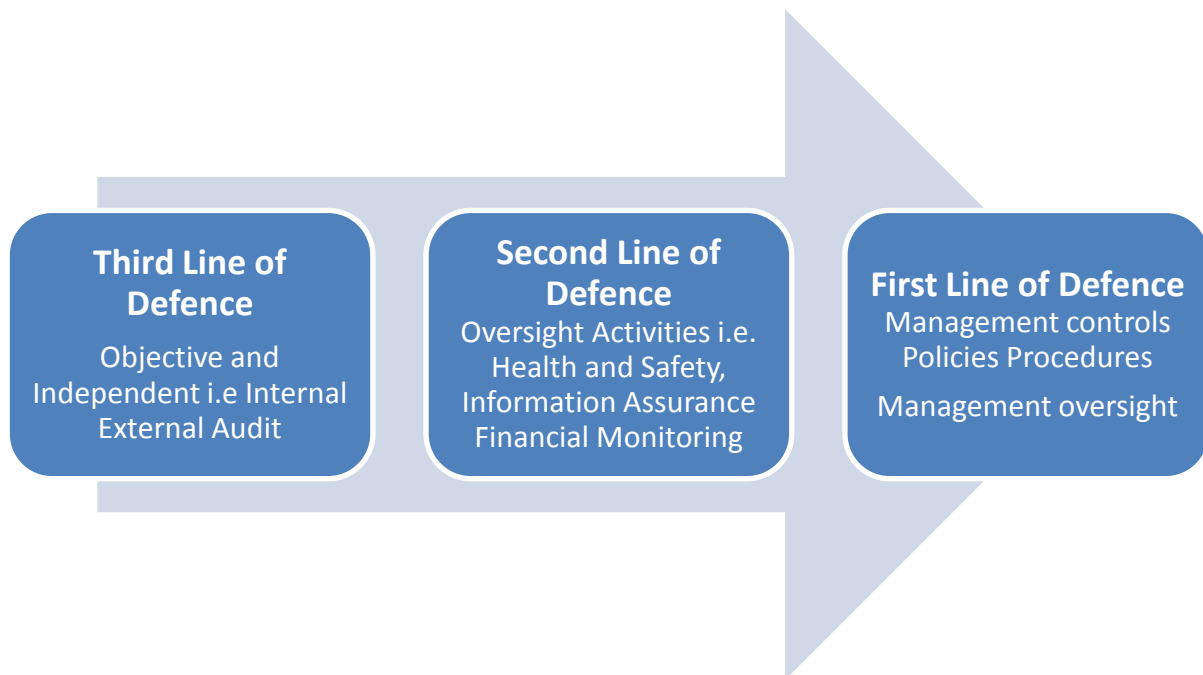
- **External Audit**

Recommendations and VFM concerns raised by the Council's External Auditor are being addressed on a timely basis.

- **Internal Audit**

Progress in addressing any significant Internal audit findings.

- 5.2 With the assistance of Birmingham Audit an assurance map be developed for the Audit Committee. Assurance maps are a useful tool that provide a structured way to identify the main sources and types of assurance activities. They help to ensure a coordinated approach is adopted, and any assurance gaps are identified. Assurance providers are assigned based on their line of defence e.g.



- 5.3 Once an assurance map has been developed it will be used to target the work of the Audit Committee. Future reports to the Committee should identify the type and level of assurance being provided so that their contribution can be mapped.
- 5.4 Any significant issues or concerns identified by the Audit Committee together with supporting recommendations are to be reported to the Council Business Management Committee or Full Council as appropriate.
- 5.5 On an annual basis the Committee will publish an annual report to Council Business Management Committee or Full Council as appropriate.



**Birmingham City Council Constitution, September 2019, Amended April 2020**  
**- Part B Roles, Functions and Rules of Procedure**

**B14. AUDIT COMMITTEE**

**14.1 Purpose**

- i. The purpose of the 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.

**14.2 Functions**

- a) To review the City Council's Annual Accounts and Annual Governance Statement (AGS). This will include advising on significant changes throughout the year to financial regulations and policies.
- b) To monitor progress in addressing control or governance issues identified in the AGS.
- c) To review and provide the executive with assurance on the embedding and maintenance of an effective system of corporate governance including the risk management framework and the associated control environment.
- d) To review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices.
- e) Responsibilities as set out in the terms of reference in relation to external audit including reviewing the planned programme of work, noting fees and terms of engagement of the external auditor, considering and advising the executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.
- f) To review and make recommendations to the executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.
- g) To consider and make recommendations to the executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.
- h) To consider reports from the Ombudsman and monitor management response in relation to these.
- i) To consider, approve or make recommendations in respect of any other matters at the request of the Council.

**Birmingham City Council Constitution, September 2019, Amended April 2020**  
**- Part C Codes and Protocols**

## **C1. CORPORATE GOVERNANCE CODE AND FRAMEWORK**

### **1.1 Introduction**

- i. Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a council relates to the communities that it serves.
- ii. Our Birmingham City Council Plan articulates ambitions framed around our Birmingham City Council Plan 2018 -2022 as a city of growth where every child, citizen and place matters.
- iii. The purpose of our corporate governance arrangements is to devise and deliver services to the citizens of Birmingham in a way that demonstrates accountability, transparency, effectiveness and value for money, integrity, and inclusivity and which reflects corporate values.

### **1.2 Corporate Governance Code**

- i. Our Corporate Governance Code and Framework is based upon seven Principles.
- ii. We will:
  - a) Behave lawfully, with integrity and in the public interest and demonstrate this through our conduct and behaviour.
  - b) Be open and engage with local communities, service users and our other stakeholders.
  - c) Focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money.
  - d) Ensure we have clear responsibilities and arrangements for transparent and effective accountability.
  - e) Take informed and transparent decisions.
  - f) Ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management controls.
  - g) Develop our capacity and capability to be effective.
- iii. It is the role of our Audit Committee to oversee and receive assurances relating to our governance arrangements and also to provide challenge on how our arrangements can be continually improved.

### 1.3 Principles

**We will behave lawfully, with integrity and in the public interest, and will demonstrate this through our conduct and behaviour**

<i><b>And commit to</b></i>	<i><b>Supported and evidenced by our</b></i>
<p>Embed values and codes of conduct for both employees and councillors.</p> <p>Ensure that those who provide services on our behalf act in accordance with these principles.</p> <p>Deal with breaches of legal and regulatory requirements and ensure fraud, corruption and allegations of misuse of public funds are dealt with effectively.</p>	<p>Values and behaviours</p> <p>Members' Code of Conduct</p> <p>Officer Code of Conduct</p> <p>Partnership agreements</p> <p>Procurement Terms and Conditions</p> <p>Arrangements for the registration and declaration of interests (including gifts and hospitality)</p> <p>Anti-Fraud and Corruption Policy</p> <p>Complaints and Compliments procedures</p>

**We will be open and engage with local communities, service users and our other Stakeholders**

<i><b>And commit to</b></i>	<i><b>Supported and evidenced by our</b></i>
<p>Ensuring that service users, local communities and other stakeholders have access to the council and are involved and consulted about major changes that may affect them.</p> <p>Welcome peer challenges, reviews and inspections from regulatory bodies and implement recommendations which arise from them.</p>	<p>Consultation</p> <p>Approach to restorative practice</p> <p>Ward Forums</p> <p>Parish and Town Council arrangements</p> <p>Birmingham Citizens Panel (when active)</p> <p>Use of Overview and Scrutiny Inquiries</p> <p>Deputations to full Council and ward forums</p> <p>Consideration of and response to Petitions</p>

**We will focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money**

<b><i>And commit to</i></b>	<b><i>Supported and evidenced by our</i></b>
<p>Ensure that services put the needs of the public first, are non-discriminatory and are appropriate to different needs in the community.</p> <p>Make best use of resources and ensure that the People of Birmingham receive excellent value for money.</p> <p>Consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions.</p>	<p>City Council Plan for Birmingham</p> <p>Equality and Diversity Policy</p> <p>Safeguarding arrangements</p> <p>Safer Birmingham Strategy</p> <p>Youth Justice Plan</p> <p>Children and Young Peoples Plan</p> <p>Annual Performance Report</p> <p>Financial Strategy and Medium Term Financial Plan</p> <p>State of the City Events</p> <p>Performance Management Framework</p> <p>Annual Internal Audit Report</p> <p>External Audit Value for Money opinion</p>

**We will ensure we have clear responsibilities and arrangements for transparent and effective accountability**

<b><i>And commit to</i></b>	<b><i>Supported and evidenced by our</i></b>
<p>Document who is responsible for our functions and will ensure reports on our performance, delivery of value for money and stewardship of resources are routinely reported.</p> <p>Review on a regular basis the vision for the city and its implications for the authority's governance arrangements.</p> <p>Have in place effective arrangements to identify and deal with failure in service delivery.</p>	<p>Constitution</p> <p>Executive Portfolios</p> <p>Monitoring of Revenue and Capital expenditure</p> <p>Delegation and sub delegation arrangements</p> <p>Committee Terms of Reference</p> <p>Protocol for the roles of Members and officers in</p>

Ensure that relationships and accountabilities between the authority, its partners and the public are clear.	<p>Decision Making</p> <p>Annual Internal Audit Report</p> <p>Customer service standards and dispute resolution arrangements</p> <p>Annual Accounts</p> <p>Access to Information Procedure Rules</p> <p>Executive and Decision Making Procedure Rules</p> <p>Annual Governance Statement</p> <p>Annual Scrutiny Report</p> <p>Annual Standards Report</p> <p>Partnership arrangements</p> <p>Information Governance arrangements</p> <p>Health Safety and Wellbeing</p> <p>Annual Pay Policy Statement</p>
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## We will take informed and transparent decisions

<b><i>And commit to</i></b>	<b><i>Supported and evidenced by our</i></b>
<p>Ensure that all decisions are taken which are proportionate, respect human rights and natural justice, are open and transparent with clear aims and desired outcomes and promote equality of opportunity.</p> <p>Consider and balance the economic, social and environmental impacts of policies and plans.</p> <p>Ensure that:</p> <p>those making decisions are provided with information that is relevant, timely and gives clear explanations of technical issues and their implications;</p> <p>appropriate legal, financial and other professional advice is considered as part of the decision-making process; and</p>	<p>Executive/Cabinet arrangements</p> <p>Committee Terms of Reference</p> <p>Access to Information Procedures</p> <p>Delegation and sub delegation arrangements</p> <p>Procedures for decision making</p> <p>Provision of effective, timely, responsive and highly regarded legal, financial and professional services</p> <p>Equality and Diversity Policy</p> <p>Use of data to support decision making and effectively target resources</p>

decision-makers can be held to account for the decisions they take through effective overview and scrutiny arrangements.	
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**We will ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management arrangements.**

<b><i>And commit to</i></b>	<b><i>Supported and evidenced by our</i></b>
<p>Embed a risk management framework to achieve our priorities and protect the Council's reputation and assets.</p> <p>Collect, use and store information and data appropriately.</p> <p>Maintain a prudential financial framework which balances our commitments with available resources, monitors income and expenditure and ensures corrective action when necessary.</p>	<p>Overview and Scrutiny Committee arrangements</p> <p>Vision for Overview and Scrutiny</p> <p>Medium Term Financial Plan</p> <p>Capital Programme and Treasury Management Strategy</p> <p>Financial Regulations and Contract Procedure Rules</p> <p>Performance and risk management arrangements</p> <p>Compliance with the Code of Practice on Data Transparency and the General Data Protection Regulation</p> <p>Business Continuity arrangements</p> <p>A 'Public Sector Internal Audit Standard' compliant Internal Audit function</p>

**We will develop our capacity and capability to be effective**

<b><i>And commit to</i></b>	<b><i>Supported and evidenced by our</i></b>
<p>Improving the use of our people resource by developing and maintaining an effective workforce plan.</p> <p>Continually review our performance, including how the organisation is led, how we work, and how we make the most efficient use of our resources assets (including data) to ensure our continuing effectiveness.</p>	<p>Code of practice for Member-Officer relations</p> <p>Our values and behaviours</p> <p>Appraisal arrangements</p> <p>Staff surveys</p> <p>Training and development programmes for</p>

<p>Ensuring that all councillors and employees have the skills, knowledge and experience they need to perform their roles effectively.</p>	<p>Councillors</p> <p>Training and development programmes for staff</p> <p>Participation in peer reviews</p> <p>Recognition of colleagues through our awards for excellence</p> <p>Workforce development plan</p> <p>Graduate and apprenticeship programmes</p>
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# Appendix C

## Birmingham City Council

### Audit Committee effectiveness review

Private and Confidential



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# 1

## Executive summary

# 1.0 Executive summary

## Background

Birmingham City Council's (BCC) Audit Committee (AC) is the Council's key forum for considering the effectiveness of governance, risk and controls as assessed by internal audit and external audit. Internal audit is typically considered to be the 'last line of defence' (see appendix 2 for a description of the lines of defence model) but has a less active role in considering how assurance is gained over the risks and controls within Directorates (typically considered to be the first and second lines of defence).

## Summary of work performed

Our review of the effectiveness of the Audit Committee (AC) was based on:

- A desktop review of key documents from the AC;
- Interviews with key stakeholders;
- Observation of AC meetings to get a good feel for strengths and areas for development;
- Review of the Audit Committee's self-assessment against the most relevant best practice guidance for the sector; primarily CIPFA's 'Audit Committees – Practical Guidance for Local Authorities and Police – 2018';
- Consideration of principles and certain transferrable elements of HM Treasury's Audit and Risk Assurance Committee handbook – March 2016' and other relevant good practice outside the sectors; and
- Identification of areas to focus on considering future training needs.

## Summary of findings

CIPFA recommends that the AC should be able to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

There are a number of areas identified during our review which hinder the AC from discharging these duties effectively:

- The AC does not report to full Council. Given audit committees are generally considered to provide to 'those charged with governance' independent assurance on the adequacy of the risk management framework, internal controls, financial reporting and annual governance this potentially reduces its effectiveness.

- Interviewees felt that there was very little awareness of the existence of, or at least the remit of, the AC beyond those on the AC and that the level of interaction between the AC and Internal Audit and Cabinet members was unusually low. There were a number of directors who had never attended an AC meeting which is atypical for the sector. The Chair is keen to explore rotational presentations to the AC from every directorate each year on the management of their key risks.
- Assurance activities are not sufficiently joined up for the AC to be able to assess the strengths and weaknesses of the control environment and the AC receive no reports on the adequacy of first line and second line activities.
- Most interviewees felt that discussions are typically about backward-looking, historical issues rather than forward looking discussions on the management of current or future risks.
- The role of the Chair is seen as important within the Council and was described as being seen as a good stepping stone to other roles. However, this was deemed to have led to a large turnover in post-holders over the last few years which, given the time taken to develop into the role, has hindered the effectiveness of the AC.
- AC members sometimes found it difficult to knowledgeably challenge Officers or contribute to any debate. This is because:
  - there is considered to be a sub-optimal level of understanding of key areas within the Committee's remit (e.g. accounting, risk, governance or assurance) within some of the current members; and
  - the agenda and discussion is felt to be too driven by Council Officers and the volume of information provided can be difficult to digest. We noted, by way of example, that the 2019/20 internal audit plan was agreed by the AC without any discussion on its content.

## Summary of recommendations

There was a range of views of how aspirational the AC should be; ranging from good enough to best in class. There is value in opening up this conversation and seeking to agree a shared point of view. Stakeholders who regularly attended AC recognised that improvements are needed in the way the AC is currently operating although, again, stakeholders almost universally recognised the AC has taken positive steps during the last 12 months and cited the current Chair as being particularly effective.

Below we have provided a summary of the key recommendations, many of which reflect the fact that the AC is in 'improvement mode' and improvement is likely to be an iterative process over time. Some recommendations need to be re-visited once initial improvement have been embedded:

- The AC Chair to attend and present an annual report of the findings and recommendations from the AC to the full Council;
- The appointment of an independent advisor:
- A short communication programme to raise the awareness of AC, its role, remit and the distinctions between the role of AC and various scrutiny committees. This should consider one-off communications, inductions and update training.
- Consider introducing a proposed rotation of Officers and the relevant Cabinet Member attending the AC to present a summary of their key risks and the results of audit reports. This should enable the AC to improve interactions with Officers and Members, provide a better link back into Council and also help the AC to gain a better understanding of the activities of the Council.
- Revisit the Audit Committee Forward Plan and meeting agendas to ensure the AC has the right balance of activity. Consider increasing the number of meetings to allow for greater capacity to consider non-statutory matters. The agenda/attendees at the additional meetings could be linked to the issues being discussed at the monthly CLT meetings focussing on similar matters.
- A detailed mapping exercise of the three lines of defence (see Appendix 2) linked to the key areas of risk to the Council is needed to help identify any potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.
- Determine the skills and qualities required for the AC and consider how gaps could be filled through training, the appointment of new members and/or external support.
- Review the quantity and quality of reports received from officers to determine if these are adequate for the AC to carry out its role successfully and challenge Officers to deliver succinct reports and presentations.

# 2

## Audit Committee Effectiveness: In relation to the key principles from CIPFA's Position Statement

# 2.1 Audit Committee purpose and governance

## Purpose and Governance

## Membership and support

## Functions

## Effectiveness

### Description and recommendations

#### Areas of good practice

- The Audit Committee meets seven times a year.
- The terms of reference sets out the purpose of the AC and meets many of the recommendations from the CIPFA Position Statement.
- The Audit Committee has access to all audit reports and is able to request the relevant officers attend the AC to explain any issues.
- The Committee has reviewed and challenged External Audit VFM conclusion and requested updates and assurance from senior officers across the Council.
- The Annual Governance Statement is reviewed on an annual basis and the AC monitors progress on key areas of concern.

#### Findings

- The purpose of the AC 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, however, there are key gaps in the Committee's current terms of reference which are recommended within the CIPFA position statement. These include: raising awareness of the need for a strong internal control environment; contributing to the improvement of the control environment; and advising on the adequacy of the assurance framework.
- The AC does not report to full Council. Given audit committees are generally considered to provide to 'those charged with governance' independent assurance on the adequacy of the risk management framework, internal controls, financial reporting and annual governance this potentially reduces its effectiveness.
- Interviewees confirmed there remains a lack of clarity between the role of the AC and that of the Scrutiny Committees; in particular the Finance and Resources Overview and Scrutiny Committee. Interviews indicated that a number of findings and reports were being discussed at both and there was a common feeling that AC regularly adopt a Scrutiny type role focussing on policy matters rather than governance, risk and control considerations. Members can still seek to "hold Officers to account" and challenge perceived policy failures.
- Interviewees felt that there was very little awareness of the existence of, or at least the remit of, the AC beyond those on the AC and that the level of interaction between the AC and Internal Audit and Cabinet members was unusually low.

#### Recommendations

- 3.1.1 The AC should work with BA to develop their understanding of the Council's internal control environment and assurance framework using a three lines of defence model (see Section 3.3 and Appendix 2). Over time BA and AC could refine their work programme based on the understanding of the strengths of the first and second lines of defence.
- 3.1.2 The AC should produce an annual report which they present to Council and they should agree criteria for any interim reporting (e.g. when they have significant concerns).
- 3.1.3 A short statement on the role of the AC should be read out at every meeting to ensure the focus of discussion is on governance, risk and controls and not policy decisions taken. The Committee should agree to end discussions which drift into policy areas.
- 3.1.4 The Council should determine conclusively whether or not the policy to prevent Members sitting on AC and Scrutiny Committees is appropriate and either enforce or amend the policy.
- 3.1.5 Further to 3.1.4 a short communication programme should be considered to raise the awareness of AC, its role, remit and the distinctions between the role of AC and various scrutiny committees. This should consider one-off communications, inductions and update training.

## 2.2 Membership and support

Purpose and Governance

Membership and support

Functions

Effectiveness

### Description and recommendations

#### Areas of good practice

- The Committee is independent from the executive and has membership from all parties represented in the Council.
- Attendees include the CFO, Chief Executive, Head of Internal Audit and the External Auditor.
- The Chair has a good relationship with internal audit and the CFO and is able to meet with both ahead of the Audit Committee as required..

#### Findings

- CIPFA recommend that a Committee's membership 'is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role' with the 'right mix of apolitical expertise'. The following issues in relation to current membership hinder the ability of the AC from fulfilling its role adequately:
  - Some members of the AC also sit on the Finance and Resources Overview and Scrutiny Committee. This is in contravention to the Council's own guidelines.
  - There are no prerequisite skills needed or role profile for the Chair or AC members and no induction or formal training has been provided. Training has been offered historically but not taken up. A number of interviewees considered that the current AC has a limited understanding of good practice in relation to corporate governance or assurance which would indicate further training is required.
  - The role of the Chair is seen as important within the Council and interviewees suggested that it is seen as a good stepping stone to other roles. However, this has led to a large turnover in the role over the last few years and stakeholders commented that this excessive churn, variability in the quality of the Chair and lack of independence has impacted the effectiveness of the AC. As an apolitical AC there is the opportunity to consider appointing future Chairs from any party.
  - There is no independent member on the AC which is atypical of a modern AC in the sector. There were differing views as to whether independent support is best provided in the form of an independent member, and independent chair of a from more specialist support without requiring AC membership, such as by the appointment of an independent advisor who could join the AC for the pre-meeting to coach members what to consider.

#### Recommendations

- 3.2.1 Cabinet should review the AC membership and consider the following changes:
- Determine the skills needed for the AC members, including the Chair, to ensure that the AC has the skills to cover the activities within its terms of reference (governance, risk management etc.) as well as other core business skills and those of strategic importance to the Council (IT, change management etc.).
  - Carry out a gap analysis between the skills needed and the skills within the current membership.
  - Supplement the skills and independence of the AC through the appointment of an independent Chair, Member, or advisor. An advisor could attend the AC pre-meet to help coach and advise Members on key topics ahead and how best to approach discussions on areas of concern ahead of the AC meetings .
  - Develop a training programme to fill the gaps including induction training. Given that a number of members are short of time, this may need to be a series of short briefings, delivered over the year or more innovative, coaching tailored to the AC agenda.
  - Ensure that independence is maintained through separation of Audit and Scrutiny roles; both in terms of membership and training on the remit of each.
  - Reconsider the current need to appoint the Chair from the ruling party. As an apolitical AC it could be that going forward the appointment is party agnostic and focussed on securing the most appropriate skilled and experienced candidate.
- 3.2.2 Consider introducing a proposed rotation of Officers and the relevant Cabinet Member attending the AC to present a summary of their key risks and the results of audit reports. This should enable the AC to improve interactions with Officers and Members, provide a better link back into Council and also help the AC to gain a better understanding of the activities of the Council.
- 3.2.3 Reports and presentations to AC should be clearer, more concise quality outputs which contribute to the development of the AC's skills and their understanding of the Council's control environment.

## 2.3 Functions of the committee

Purpose and Governance

Membership and support

Functions

Effectiveness

### Description and recommendations

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#### Areas of good practice

- The Committee's functions are wide ranging and include: the review of BCC's annual accounts and annual governance statement; internal and external audit; the management of fraud; treasury management arrangements; and ombudsman reports/response.
  - Stakeholders commented that Officers did a good job of explaining key aspects of the annual accounts.
  - The Committee considers the effectiveness of the risk management framework, it receives quarterly updates on the strategic risk register and it has called risk owners to the Committee to provide updates and assurances.
  - The Committee maintains its advisory role by not taking on any decision-making powers that are not in line with its core purpose.
  - The Committee's role does not include value for money but the External Auditor reports on this aspect of the Council's performance.
  - The Chair develops an annual plan for the Committee which ensure all of its functions are carried out during the year.
-

## 2.3 Functions of the committee

Purpose and Governance

Membership and support

Functions

Effectiveness

### Findings

- CIPFA recommends that the audit committee should provide to 'those charged with governance' independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.
- Currently the AC is fulfilling part of that role, but assurance activities are not sufficiently cohesive for the AC to be able to understand and assess the strengths and weaknesses of the control environment. These are some specific issues we noted in our review:
  - The risk register now focuses on more strategic risks. However, it is detailed and contains a significant number of risks. At present the AC does not dedicate enough time to focus on how strategic risks are managed. Stakeholders felt discussions on risk should be higher on the AC's agenda.
  - The internal audit plan is not aligned to the areas of highest risk for the Council. The 2020/21 plan includes only 5% of reviews focused in high risks areas and in 2019/20, there were 121 audits carried out with 70 rated as low with no material issues.
  - There is limited challenge or discussion on the internal audit plan; the 2019/20 internal audit plan was approved by the AC with no discussion or questions asked.
  - The internal audit activity does include some assessment of first and second line assurance as part of reviewing controls in individual internal audit reviews. However, there are no reports to AC on the adequacy of first line and second line activities at a higher level.
  - Stakeholders commented that internal audit reports regularly pick up issues which the first line should have identified but there is limited formal integration of what each line of defence should be focussing on.
- There has been no formal evaluation of whether the AC is fulfilling all aspects of its terms of reference and whether the balance and quality of discussions was adequate.
- There is uncertainty over where the boundaries of the AC lie in relation to group entities and organisations that cross the Council boundaries. An example is the existence of the Cabinet Committee Group Company Governance with a remit covering the management of governance, risk and controls for Council group entities.

### Recommendations

There a number of changes needed for the AC to operate at the level recommended by CIPFA. Many of the findings reflect the fact that the AC is in 'improvement mode' and this is likely to be an iterative process over time; some will need to be re-visited once initial improvement have been embedded. The following changes should be introduced over the next 12 months:

3.3.1 Develop a comprehensive assurance framework for the Council using the three lines of defence. This will enable the AC to understand all key sources of assurance and to challenge gaps and unnecessary duplication (for example is the current focus on core financial systems justified). BA produced a simple three lines of defence paper in 2018, a similar paper mapped to the internal audit plan would be a good first step.

3.3.2 Revisit the Audit Committee Forward Plan and meeting agendas to ensure that gaining assurance on the adequacy of the risk management framework is given greater prominence and time (see 3.4.1).

3.3.3 Provide a greater level of challenge to the HIA in relation to the internal audit plan including: questioning BA's opinion on what should be included in the plan; any potential gaps; any reviews which BA do not think are needed or could be delivered with a reduced scope.

3.3.4 The annual internal audit report should provide a greater level of analysis of the adequacy of first and second line assurance based on findings from internal audit reviews.

3.3.5 Formally complete an annual self-assessment of its effectiveness and use that process to drive and measure improvements. These could be reported to Council under recommendation 3.1.2.

3.3.6 The Council should review the role played by Audit Committee for governance, risk and controls for all Council group entities and cross-organisational boundary strategic partnerships (such as in relation to the Commonwealth Games 2022). In particular a review of the remit of Committee and the Cabinet Committee Group Company Governance would be helpful to avoid any duplication or gaps in coverage regarding governance, risk and control matters associated with group entities.



## 2.4 Effectiveness of the Committee

Purpose and Governance

Membership and support

Functions

Effectiveness

### Description and recommendations

#### Areas of good practice

- The stakeholders interviewed thought there was a good level of discussion and engagement from some members.
- There is an action tracker in place to ensure recommendations are tracked.
- The Committee receives an annual and half yearly update report from internal audit and a monthly schedule of final audit reports issued (which includes assurance and risk ratings)
- A detailed pre-meeting has been introduced to limited the volume of information being presented at the Committee. The pre-meet includes the same officers – HIA, CFO, Solicitor for legal issues and the relevant officers who may need to present on specific issues (internal audit findings or risk mitigation activity).

#### Findings

- Stakeholders generally felt that the agenda and discussion is largely driven by the information provided Council Officers; in audit and beyond. Going forward the AC needs to take greater ownership if they want to be more effective and strategic. There was a widely shared view that the agenda is too broad which, given the two hour time limit, restricted effective discussions of the most critical items.
- Given the volume of information provided to the AC and the number of items on the agenda, stakeholders commented that it can be difficult to challenge the conclusions contained in the information presented and key issues could be missed. Some AC members felt that information was either being hidden, misrepresented or delayed for political purposes.
- The AC are able to ask any Officers to present to them on significant risk and audit issues but a number of directors have never attended an AC meeting. A number of stakeholders commented that this is not what they have seen elsewhere and it is rare for an Officer to be asked to the AC even for major risks and issues.
- Interviewees suggested that discussions can often driven by a political agenda rather than to facilitate the AC's understanding of the control environment, or help the Council's improvement journey.
- Most interviewees felt that discussions are typically about backward-looking at historical issues rather than forward looking discussions on the management of current or future risks. This, coupled with a view that often discussions are looking to assign 'blame' rather than learn lessons led many interviewees to consider discussions were too late to make a real difference or have any impact.

#### Recommendations

- 3.4.1 The AC should consider holding a dedicated session to restructure the annual plan and to work with key stakeholders like BA to decide how the AC could be more effective with the time available or. Seven meetings capped at two hours is relatively limited and more time would for allow broader or deeper discussions so we recommend considering increasing the number of meetings to allow for greater capacity to consider non-statutory matters. The agenda/attendees at the additional meetings could be linked to the issues being discussed at the monthly CLT meetings focussing on similar matters. (see recommendation 3.2.2).
- 3.4.2 At present all items are given equal merit on the agenda. Other organisations operate an 'above the line' and 'below the line' system whereby the former are presented and discussed as a matter of course. The information below the line are for information but can be discussed if requested. This may help focus discussions on the priority matters.
- 3.4.3 Better quality and shorter reports supported by succinct presentations of salient points would enable the AC to understand the information and provide a greater level of challenge. Members could work with BA to design templates that would be appropriate for different types of reviews or for different report ratings .
- 3.4.4 The Chair has an aspiration to invite representatives from each directorate to present on the risks and the control environment within their part of the Council. This is likely to be on a rolling basis with all directorates being covered each year. This should help broaden the discussion and help improve the AC's understanding of the overall control environment.
- 3.4.5 When developing the Forward Plan there is an opportunity to ensure greater focus on emerging risks and future risks alongside receiving IA reports and more broadly discharging its regulatory requirements.

# Appendix 1: Stakeholder interviews

# Stakeholder interviews

Name of Attendee	Stakeholder	Role
Graham Betts	Council Leadership Team	Acting Chief Executive and Adult Social Care
Rebecca Hellard	Council Leadership Team	Chief Financial Officer
Tim O'Neil	Council Leadership Team	Director Education and Skills
Peter Bishop	Council Leadership Team	Director, Digital and Customer Services
Ian Macleod	Council Leadership Team	Director, Inclusive growth
Dawn Hewins	Council Leadership Team	Director, Human Resources
Jonathon Tew	Council Leadership Team	Assistant Chief Executive
Robert James/Chris Jordan	Council Leadership Team	Director, Neighbourhoods
Sarah Dunlevey	Other Stakeholders	Assistant Director Audit and Risk Management
Fred Grindrod	Audit Committee	Chairman Audit Committee - Labour
Paul Tilsley	Audit Committee	Audit Committee - Liberal
Merion Jenkins	Audit Committee	Audit Committee - Conservative
Brigid Jones	Cabinet	Deputy Leader

## Appendix 2: The three lines of defence

# The Three Lines of Defence (3LoD) summarised

To ensure the effectiveness of an organisation's risk management framework, those charged with governance need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. PwC and the Institute of Internal Auditors endorse the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

1. The first line of defence – functions that own and manage risk. Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and controls.
2. The second line of defence – functions that oversee or specialise in risk management and compliance. The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.
3. The third line of defence – functions that provide independent assurance, above all internal audit. Internal audit (though increasingly other external providers of assurance too) form the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.



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## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>Audit Committee</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>28<sup>th</sup> July 2020</b>
<b>Subject:</b>	<b>Risk Management</b>
<b>Wards Affected:</b>	<b>All</b>

**1. Purpose of Report**

- 1.1 To update Members on the development of a Strategic Risk Register and implementation of the Risk Management Framework.

**2. Recommendation**

Audit Committee Members:

- 2.1 Note the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT).
- 2.2 Review the strategic and top operational risks and assess whether further explanation / information is required from risk owners in order to satisfy itself that the Risk Management Framework has been consistently applied.

**3. Risk Management Framework**

- 3.1 The Risk Management Framework sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels. The Framework, and supporting documentation, has been reviewed and updated to ensure that sufficient focus is given to the strategic direction of the Council.

**4. Strategic Risk Register**

- 4.1 Using a 'PESTLE' analysis, the Council Leadership Team (CLT) have undertaken a major review to identify the strategic risks faced by the Council together with potential development opportunities. The management of these risks will help to support the ongoing improvement of the Council and delivery of strategic priorities and outcomes.

- 4.2 The previous corporate risks, which had become increasing operational in their nature, have been removed from the corporate register for management at directorate level.
- 4.3 The strategic risks have been piloted on a heat map within Appendix A and are summarised within Appendix B. The profile of the strategic risks, against each 'PESTLE' category is given below:

	High	Medium	Low	Total
SR1 - Political	1	2		3
SR2 - Economical	4	2		6
SR3 - Social	5	3		8
SR4 - Technological	1	2		3
SR5 - Legal	4	1	1	6
SR6 - Environmental	2	0		2
SR7 - Cross Cutting	1	2		3
<b>Total</b>	<b>18</b>	<b>12</b>	<b>1</b>	<b>31</b>

- 4.4 Three strategic risks have been identified with a high residual impact and likelihood score:

- SR3.4 Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism
- SR4.3 Risk of Cyber Attacks
- SR5.1 Inadequate Property Portfolio (including Health & Safety and Working conditions)

- 4.5 The strategic risk register is updated and reviewed on a monthly basis by CLT to ensure robust oversight and that appropriate action is being taken.

## 5. Directorate Risks

- 5.1 A network of directorate risk representative is in place. These representatives facilitate the review of strategic risks and support each directorate in developing and maintaining appropriate directorate risk registers.
- 5.2 Directorate risk registers contain operational risks, managed at a local level.
- 5.3 The top operational risks have been extracted from directorate risk registers and are detailed within Appendix C.

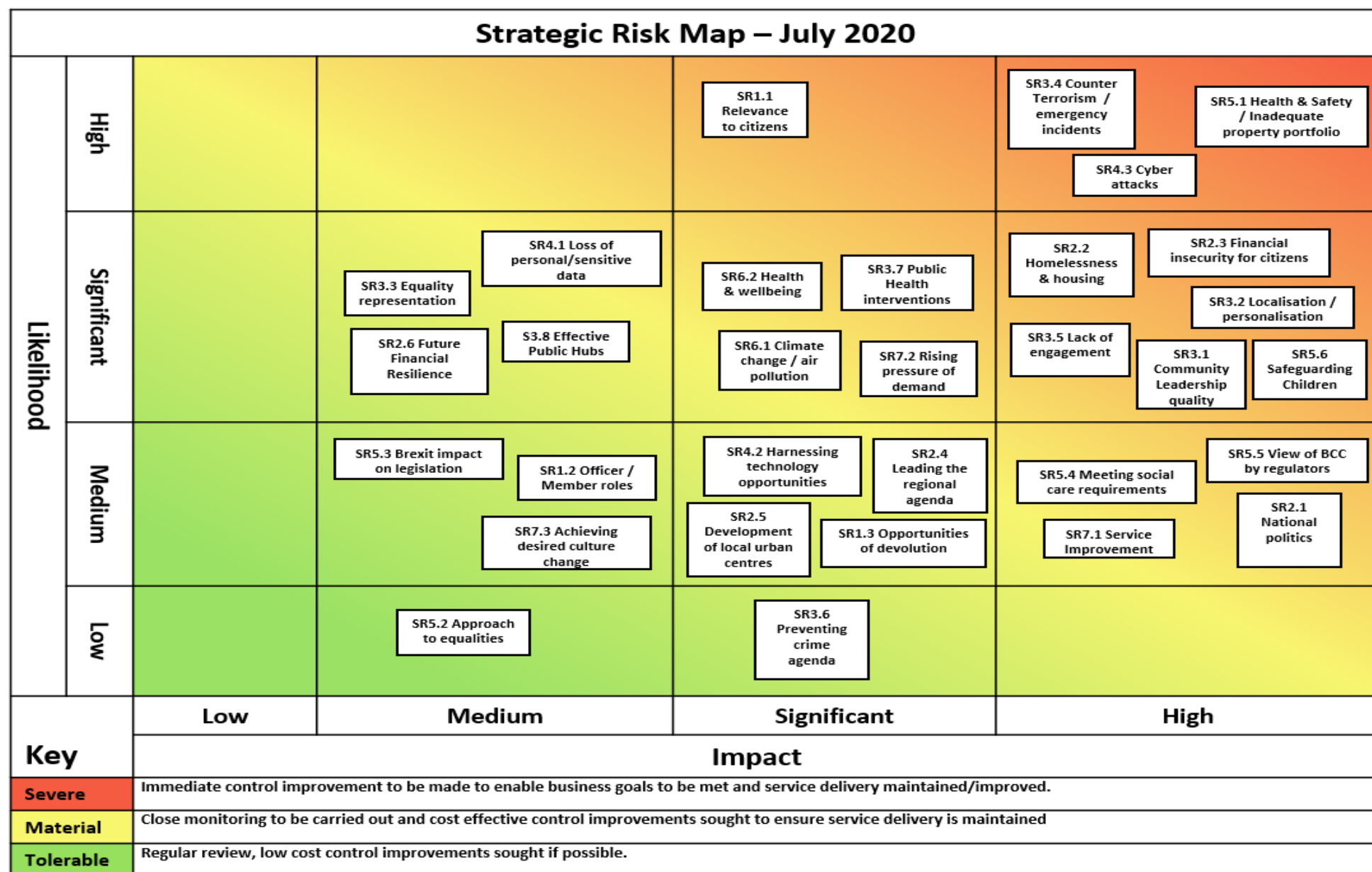


<b>6.</b>	<b>Role of the Audit Committee</b>
6.1	Members have a key role within the risk management and internal control processes.
6.2	<p>The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:</p> <ul style="list-style-type: none"> <li>• providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment;</li> <li>• whether there is an appropriate culture of risk management and related control throughout the Council;</li> <li>• to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and</li> <li>• to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.</li> </ul>
<b>7.</b>	<b>Legal and Resource Implications</b>
7.1	The work carried out is within approved budgets.
<b>8.</b>	<b>Equality Impact Assessment Issues</b>
8.1	Risk management forms an important part of the internal control framework within the Council.
8.2	The Council's risk management framework has been Equality Impact Assessed and was found to have no adverse impacts.
<b>9.</b>	<b>Compliance Issues</b>
9.1	Decisions are consistent with relevant Council Policies, Plans and Strategies.

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## Risk Heat Map



## Strategic Risk Register Summary

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan
<b>SR1 Political</b>						
SR1.1	The Quality of Services impacting on the relevance of the Council to the Citizens of Birmingham	Director of Digital & Customer Services	Severe	Severe	Tolerable	Yes
SR1.2	Officer / Member Roles	Director of Legal Services	Severe	Material	Tolerable	Partially
SR1.3	Failure to realise the opportunities of devolution and the Combined Authority	Assistant Chief Executive	Severe	Material	Tolerable	Yes
<b>SR2 Economic</b>						
SR2.1	Impact of National politics on jobs	Acting Director – Inclusive Growth	Severe	Severe	Tolerable	No
SR2.2	Homelessness and less affordable housing with rising housing requirements	Acting Director – Inclusive Growth & Acting Director - Neighbourhoods	Severe	Severe	Material	Yes
SR2.3	Increased financial insecurity and inequality for citizens	Assistant Chief Executive	Severe	Severe	Tolerable	Yes
SR2.4	Leading on the Regional Agenda	Acting Director – Inclusive Growth	Severe	Material	Tolerable	Yes
SR2.5	Development of Local Urban Centres	Acting Director – Inclusive Growth	Material	Material	Tolerable	Yes
SR2.6	Future Financial Resilience	Interim Chief Finance Officer	Severe	Severe	Material	Yes
<b>SR3 Social</b>						
SR3.1	Quality of Community Leadership, at Member and Officer level	Director of Neighbourhoods	Severe	Severe	Tolerable	Yes
SR3.2	Localisation and personalisation being delivered effectively	Director of Neighbourhoods	Severe	Severe	Tolerable	Yes
SR3.3	Equality representation within the Council does not represent the city	Director of Human Resources	Severe	Material	Tolerable	Yes

## Appendix B

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan
SR3.4	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism	Assistant Chief Executive	Severe	Severe	Tolerable	Yes
SR3.5	Lack of Engagement	Directors of Adult Social Care and Education and Skills	Severe	Severe	Tolerable	Yes
SR3.6	Inability to effectively influence the preventing crime agenda	Assistant Chief Executive	Severe	Material	Tolerable	Yes
SR3.7	Public Health approach to early interventions ineffective	Director of Public Health	Severe	Severe	Tolerable	Yes
SR3.8	Creation of effective public hubs in line with local needs	Director of Inclusive Growth	Severe	Material	Material	Yes
<b>SR4 Technological</b>						
SR4.1	Loss of personal and sensitive data	Assistant Director for IT&D & CIO	Severe	Material	Tolerable	Yes
SR4.2	Failure to take advantage of new ways of working enabled by technology	Assistant Director for IT&D & CIO	Severe	Material	Tolerable	Yes
SR4.3	Risk of Cyber Attacks	Risk of Cyber Attacks	Severe	Severe	Material	Yes
<b>SR5 Legal</b>						
SR5.1	Inadequate Property Portfolio (including Health & Safety and Working conditions)	Assistant Director Property Services	Severe	Severe	Material	Yes
SR5.2	Ineffective approach to Equalities	Assistant Chief Executive	Severe	Tolerable	Tolerable	Yes
SR5.3	Future Brexit agenda and impact on legislation	Director of Legal Services	Severe	Material	Material	Yes
SR5.4	Inability to fully meet social care requirements	Director of Adult Social Care	Severe	Severe	Tolerable	Yes
SR5.5	View of BCC by Regulators	Directors of Adult Social Care and Education and Skills	Severe	Severe	Tolerable	Yes

## Appendix B

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan
SR5.6	Safeguarding Children	Directors of Education and Skills	Severe	Severe	Tolerable	Yes
<b>SR6 Environmental</b>						
SR6.1	Ability to address air pollution and full delivery of the climate change agenda	Acting Director, Inclusive Growth	Severe	Severe	Material	Yes
SR6.2	Health & Wellbeing	Director HR	Severe	Severe	Tolerable	Yes
<b>SR7 Cross Cutting</b>						
SR7.1	Service Improvement	Assistant Chief Executive	Severe	Material	Tolerable	Yes
SR7.2	Rising pressure of demand	Directors of Adults Social Care / Education and Skills	Severe	Severe	Tolerable	Yes
SR7.3	The organisational culture change needed to become a modern council is not achieved	Chief Executive re organisational culture	Severe	Material	Tolerable	Yes

## Top Operational Risks

Directorate	Service Area	Risk
Digital & Customer Services	The Application Platform Modernisation (APM) Programme has been established to exit the Capita data centres.	There is a risk that the project will not complete by March 2021, jeopardising the contractual exit
Education & Skills	Education	Managing the safe return of children and young people to educational settings.
Finance & Governance / HR	1B Programme (ERP Implementation)	There is a risk that the programme is unable to deliver within the expected costs and timeframe and doesn't deliver the required benefits.
Neighbourhoods	Housing	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry
Neighbourhoods	Housing	The impact of homelessness on the citizens of Birmingham
Inclusive Growth	Commonwealth Games Village	Slippage and cost overruns
PIP	Public Health	<p>COVID-19</p> <ul style="list-style-type: none"> <li>• Impact on staff – surge support required, resilience of team; burnout of staff</li> <li>• Impact of focus on Covid on business as usual activities</li> <li>• Compounded effect of Covid on health inequalities making these much wider</li> </ul>

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Interim Chief Finance Officer</b>
<b>Date of Decision:</b>	<b>28 July 2020</b>
<b>Subject:</b>	<b>AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT</b>
<b>Wards affected: All</b>	
<b>1</b>	<b>Purpose</b>
1.1	At its meeting on 24 September 2019, Members considered the External Auditor's Audit Findings Report following the audit of the Council's financial statements for 2018/19 which included six recommendations for management to consider.
1.2	The management responses to the External Auditor's recommendations were considered by this committee at that meeting and progress updates have been brought to previous meetings of this Committee. This report provides a further progress update on the implementation of management actions.
<b>2</b>	<b>Decisions recommended:</b>
	Members are recommended to:
2.1	Note 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
2.2	Seek updated reports to future meetings of this committee on the continued progress in implementing the management actions proposed.

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### **3 Compliance Issues:**

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:  
The coverage of the management actions in response to the Audit Findings Report recommendations are consistent with the policy framework and budget.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:  
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):  
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.
- 3.4 Will decisions be carried out within existing finances and resources?  
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):  
The Audit Findings Report includes details on activities where the External Auditor has identified that the Council can make improvements or reduce risks in its operations. This report provides a response on the progress in addressing the recommendations made.

### **4 Relevant background/chronology of key events:**

- 4.1 The Audit Findings Report was considered by this committee at its meeting on 24 September 2019 as part of the process for approving the Council's financial statements for 2018/19. Management responses to the recommendations made by the external auditor were also considered at that meeting.
- 4.2 This report sets out the current progress in addressing the issues raised in the external auditor's recommendations identified in the Audit Findings Report.
- 4.3 Further reports will be provided to future meetings of this committee setting out the additional progress in implementing management actions.

### **Signature:**

.....  
Rebecca Hellard, Interim Chief Finance Officer

### **Appendices**

Appendix 1 – Progress update on Response to Audit Findings Report  
Recommendations



## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<b>Accounts</b>				
1	<b>System Control – Feeder Files</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>The Council identified that eight separate feeder files from two subsidiary systems relating to 2019/20 were posted in period 16 of the 2018/19 general ledger in error.</p> <p>These entries were not reflected in the accounts and have been appropriately reversed out of the ledger, so there is no impact on the 2018/19 accounts.</p> <p><b>Recommendation</b> The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future</p>	<p>An investigation into why the role that prevents users posting into the year-end period does not cover feeders will be conducted and appropriate action taken. This will start immediately.</p> <p>Feedback will be provided to the team and relevant managers in the areas where the issues have occurred and reminders given on the requirement to enter data on a timely and accurate basis.</p> <p>Feeder owners will be reminded of their responsibility:</p> <ul style="list-style-type: none"> <li>to ensure that files are submitted in a timely manner and</li> <li>that they reconcile their system to the ledger to ensure that all entries are recorded</li> <li>that they notify Finance of any files that cannot be processed to ensure these are reflected in the accounts.</li> </ul>	Immediate	Finance Manager, Financial Accounts	<p><b><u>November 2019</u></b></p> <p>The chapter in the Financial Management Tool has been reviewed and will be published shortly.</p> <p>Information, Technology and Digital Services (IT&amp;D) are currently looking at a solution to the matter. A progress update will be provided at the next meeting.</p> <p><b><u>January 2020</u></b></p> <p>The chapter for the Financial Management Tool has been reviewed and is awaiting publication.</p> <p>Information, Technology and Digital Services (IT&amp;D) are still looking at a solution for this matter and a progress update will be provided at the next meeting.</p> <p><b><u>March 2020</u></b></p> <p>IT&amp;D have concluded that a solution to automatically prevent this recurring isn't viable as it increases the risk of process failure to other aspects of the</p>

# Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>The chapter in the Financial Management Tool will be reviewed to include feeder owner responsibilities and guidance in their use.</p> <p>During the closure of accounts, regular Trial Balance reports by document type will be run to ensure that feeder files are not posted retrospectively in the old financial year.</p>			<p>feeder file process. Monitoring of files will continue as before.</p> <p><b><u>June 2020</u></b></p> <p>Transactions through the ledger after the year end are monitored to ensure that only journal transactions are recorded. This will continue to the final closure of the accounts.</p> <p><b><u>July 2020</u></b></p> <p>Regular trial balances have been run during the closedown process and no relevant transactions have been identified.</p>
2	<b>Control Weakness - Asset Disposals</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>An asset with a net book value of £9.4m was disposed of in 2017/18 but this was not accounted for until 2018/19.</p> <p>We are satisfied this appears to be an isolated incident due to the unusual nature of the arrangement, so there is no material risk to the 2018/19 accounts.</p>	<p>Property Services will ensure that clear instructions are sent to Legal &amp; Democratic Services, Property Records Team and relevant stake holders to facilitate the disposal of assets in an appropriate manner.</p> <p>Legal, Property and Finance staff will meet to share information on property transactions and ensure that processes are in place to</p>	March 2019	Assistant Director, Property Services	<p><b><u>November 2019</u></b></p> <p>The particular issue identified related to a CPO undertaken at the behest of a third party. Usually there is a back to back agreement to then transfer the asset on to the third party once the purchase has completed. However, in this case the purchaser did not want the asset immediately which led to the confusion. Going forward, the legal agreements will be amended to ensure</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p><b>Recommendation</b></p> <p>The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year</p>	<p>capture relevant information and are being followed.</p> <p>Reconciliations will be undertaken during the year of disposals to identify any mismatches in information.</p>			<p>that back to back agreements are entered into.</p> <p>The Legal, Finance and Property sections have met to look at tightening up procedures and share information. Appropriate processes will be completed to ensure that completion memo's are recorded on IPMS and subsequently reconciled with cash receipts. Any differences will be highlighted at the earliest opportunity.</p> <p>Where external legal support is used the agreement will include the requirement to provide a completion memo for ensuring property records are maintained appropriately.</p> <p><b><u>January 2020</u></b></p> <p>Guidance to be sent to Property Services Heads of Service and Project Officers detailing processes to be followed.</p> <p><b><u>March 2020</u></b></p> <p>Guidance has been issued to Heads of Service and project officers to provide clarity on the process to be followed.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					<p><b><u>June 2020</u></b></p> <p>All transactions are monitored on a monthly basis by Property Services Officers at each Capital Receipts meeting. From 26 June 2020 there will be an agenda item specifically around completion memos being actioned.</p> <p><b><u>July 2020</u></b></p> <p>All disposal transactions continue to be monitored by Property Services Officers at each Capital Receipts meeting with confirmation completion memos have been raised and actioned.</p>
3	<b>Control Weakness – Asset Valuations</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>We identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.</p> <p><b>Recommendation</b> Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved</p>	<p>Property services officer valuations will be independently checked by an appropriate qualified valuer with immediate effect.</p>	Immediate	Assistant Director, Property Services	<p><b><u>November 2019</u></b></p> <p>A two tier checking system has been put in place with a peer review by an appropriately qualified surveyor followed by a management review by the Head of Service.</p> <p><b><u>January 2020</u></b></p> <p>Details of valuation sign off process to be followed sent out in week of 15 January 2019.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					<p><b><u>March 2020</u></b></p> <p>An independent professional review of all cyclical valuations undertaken by in-house valuers has been carried out by Avison Young's valuation team who specialise in valuations of this nature.</p> <p><b><u>June 2020</u></b></p> <p>This recommendation was actioned specifically as part of the 2019/20 Annual Asset Valuation process with the appointment of Avison &amp; Young.</p> <p><b><u>July 2020</u></b></p> <p>Actioned and completed for the 2019/20 accounting period. The same methodology of an independent review will be adopted for the 2020/21 Annual Asset Valuations process.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
4	<b>Control Weakness – Completeness of Expenditure</b>				
	Residual Risk	Low			
	Impact	Medium			
	<p>Our testing of the completeness of expenditure identified several items which were paid after 31 March 2019 but should have been accrued into 2018/19. The Council has performed extended analysis covering payments made during the period to 22 August 2019 which has identified £9.8m of invoices which relate to 2018/19 but were not accrued.</p> <p><b>Recommendation</b> The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future.</p>	<p>The current audit and follow up investigation has identified a number of areas where the Council process for procurement and receipting of goods and services and payment of invoices are not being followed appropriately. An analysis of the data will be undertaken to identify those areas where there are significant numbers or value of invoices that have not been accounted for appropriately. Meetings will be held with those teams identified to set out the implications to the Council of not following relevant processes.</p> <p>Finance Business Partners will brief Directorate Management Teams on the issues identified and the action required and procedures to be followed to meet appropriate accounting requirements.</p> <p>The Council has organised a number of mandatory “Finance for Non-Financial Managers” training sessions which has covered the need for accounting for activities in</p>	Immediate	Chief Finance Officer	<p><b><u>November 2019</u></b></p> <p>Directorates have been provided with monthly reports for a number of years detailing areas where:</p> <ul style="list-style-type: none"> <li>• overdue invoices which have not been authorised within 3 working days</li> <li>• services have been supplied without a purchase order</li> <li>• purchase orders have been raised retrospectively.</li> </ul> <p>Whilst the reports have been provided issues have still occurred with the timeliness of invoice payments.</p> <p>Greater emphasis will be placed on this reporting and will be driven through the Corporate Leadership Team and followed up through Directorate Management Teams with Finance Business Partners.</p> <p>In addition, further reports will be run to identify specific hot spots for delays and individuals offered advice and support in clearing invoices on a timely basis.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>the year that the goods/services are provided. This will be followed up with additional training for managers.</p> <p>The Voyager Newsletter sent out to staff will include articles on the issues identified and the actions that will be required to ensure future compliance.</p> <p>During the year, regular reports will be run to identify where invoices, purchase orders and goods receipts are not being recorded on a timely basis which will be followed up with the appropriate team and Directorate management team.</p> <p>There will be a hard close at a month end prior to the end of the financial year so that a check can be run on ensuring that appropriate procedures are being followed.</p> <p>At year end reports will be run to check those invoices paid early in the new year have been accounted for correctly and goods receipting of purchase orders is appropriate.</p>			<p>Guidance on the processes and procedures to be followed will be republished.</p> <p>Areas of continued non-compliance will be visited to determine the reasons for any issues.</p> <p><b><u>January 2020</u></b></p> <p>Suppliers to be written to to ensure that invoices are sent into the central point as per processes.</p> <p>Guidance being drafted as a reminder to all BCC and BCT services of processes to be followed in procurement and payment to minimise payment delays.</p> <p>Closedown guidance drafted to advise service and finance teams of processes and deadlines for year end, including requirement for appropriate accounting for goods and services delivered.</p> <p>Monitoring reports continuing to be produced and analysed to identify any hot spots in service or system performance.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					<p><b><u>March 2020</u></b></p> <p>Budget Holders have been written to regarding the need for invoices to be paid promptly.</p> <p>Suppliers have been written to requesting that all invoices are sent to a central point to allow faster uploading and capture of information into the finance system.</p> <p><b><u>June 2020</u></b></p> <p>As part of the completion of the financial transactions for the outturn report and the financial statements, a review of outstanding purchase orders and invoice clearance to ensure appropriate entry into the accounts has been undertaken. This has also helped ensure the payment of suppliers on a timely basis.</p> <p>Major payments made in April have been reviewed to check the financial year in which the expenditure should be recorded and whether accruals have been made.</p> <p><b><u>July 2020</u></b></p> <p>Major payments made in May have been reviewed to check the financial</p>



## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					year in which the expenditure should be recorded and whether accruals have been made.
5	<b>Asset Valuation – Determination of appropriate rates</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>As part of the valuation of Council Dwellings we identified that the valuer applied a £5k adjustment rate for bedrooms to the majority of archetypes</p> <p>On further review, the £5k was based on the approach taken in previous years and it was not clear that a review had been carried out to check if this value was still appropriate.</p> <p><b>Recommendation</b> The Council should ensure that assumptions used in the valuation of property, plant and equipment, including council dwellings, are reviewed for appropriateness each year and updated where appropriate.</p> <p>In particular a review of the actual impact of the number of bedrooms</p>	<p>Agreed. A review will be undertaken on the impact of the number of rooms on property prices for relevant archetypes to ensure the robustness of valuations.</p>	Immediate	Assistant Director, Property Services	<p><b><u>November 2019</u></b></p> <p>A full beacon review is being undertaken for 2019/20 which will include a review of the valuation methodology to be adopted with an option to move to a £ per m<sup>2</sup> basis rather than a room differential basis.</p> <p>Beacon properties will be identified to ensure a fair representation of the City area. There will be discussions with an external valuer to support the market intelligence gathering.</p> <p><b><u>January 2020</u></b></p> <p>Process implemented with effect from January 2020 and will be followed through the closure of the 2019/20 accounts.</p> <p><b><u>March 2020</u></b></p> <p>Inspections are being conducted by external experts to provide additional</p>

# Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	on the valuation of council dwellings should be carried out in order to support the value of the adjustment.				<p>resource support to the in-house team. Savills are undertaking a peer review of the valuation once completed.</p> <p><b><u>June 2020</u></b></p> <p>This recommendation was actioned specifically as part of the 2019/20 Annual Asset Valuation process with Sure Surveyors conducting the independent valuations.</p> <p><b><u>July 2020</u></b></p> <p>Actioned and completed for 2019/20 accounting period and therefore closed, with independent experts to be appointed to value assets as part of all future annual review processes.</p>
6	<b>SAP – User Access</b>				
	Residual Risk	Low			
	Impact	Low			
	As part of our review of IT controls, we identified an excessive number of users with access to critical T-codes within SAP. Our IT audit identified 109 uses with potentially inappropriate access out of 668 users tested due their higher risk nature.	<p>Capita ICTDS have responded to the GT IT Audit on this point which is summarised below</p> <p>The majority of the transactions listed here will be assigned to BASIS only (the team who deal with the core of the system – these transactions are appropriate for this team to use) and most within their</p>	Commencing September 2019	Finance Manager SAP BSC	<p><b><u>November 2019</u></b></p> <p>The level of access identified in the recommendation is required to ensure that the system functionality can be maintained.</p> <p>Regular reviews of access are undertaken and the new Governance,</p>

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators.</p> <p>We noted this is primarily due to the current Firefighter setup and the fact that 8 users have SAP ALL access.</p> <p><b>Recommendation</b></p> <p>Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only.</p>	<p>firefighter id. The rest have been reviewed after previous audits and deemed appropriate All users with access to any of these transactions will either be support personnel, or in the case of SM37, users within the business. (SM37 monitors jobs run in the background in SAP. Due to the size and complexity of BCC's ledger, it's recommended that large reports are run in the background to reduce stresses on BAU processing).</p> <p><u>Response from BCC</u></p> <p>User access to critical transactions is reviewed regularly with access to areas such as SAP_ALL reviewed daily. Appropriate action is taken to remove or amend as required.</p> <p>In August an upgraded Governance, Risk and Compliance tool was implemented in SAP which will assist with user access administration and monitoring.</p>			<p>Risk and Compliance tool is being used to support monitoring of access.</p> <p><b><u>January 2020</u></b></p> <p>The level of access identified in the recommendation is required to ensure that system functionality can be maintained.</p> <p>Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.</p> <p>This recommendation can be closed.</p>



# Audit Progress Report and Sector Update

Birmingham City Council  
Year ending 31 March 2020

July 2020



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# Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2020

## Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We have begun our work auditing the Council's accounts in July, in advance of receipt of a set of draft financial statements.

In March we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2020.

### Covid-19

In addition to the audit risks communicated in our Audit Plan in June 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. In April we issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19. Both of these documents were communicated to those charged with governance in June 2020.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 30 November 2020.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

<https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/>



# Progress at July 2020 (Cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim is underway. We plan to be able to complete our work by the original deadline of 30 November, although it should be noted that in response to the impact of the Covid-19 pandemic the DWP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit Committee once the work is completed.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in advance of the 30 November deadline.

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). We have yet to receive from MHCLG guidance for the certification work for the 2019/20 return.

### Meetings

We meet regularly with Finance Officers as part of ongoing liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your new Chief Executive in July to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# COVID-19 Update

## Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- we will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

## Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheet events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- disclosure of impact in annual report.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- impact on reporting to those charged with governance and signing arrangements.

## Changes to reporting requirements:

- the Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 30 August 2020.
- for principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2019/20.	April 2019	Complete
<b>Audit Plan</b> We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	March 2020	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the November Audit Committee.	November 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	December 2020	Not yet due

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below :

Public Sector

Local  
government

# In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

## Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

## Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

### Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

### Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

### Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

### Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>



# Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

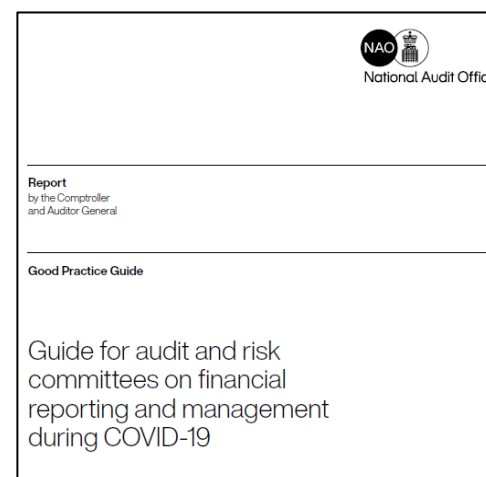
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>





# Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

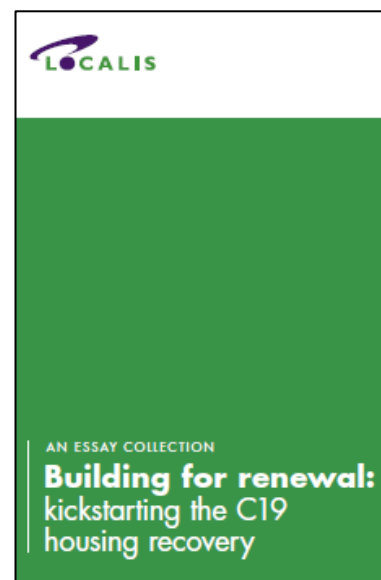
Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

- **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.
- **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.
- **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.
- **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all, a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind key workers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>



# Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



# CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

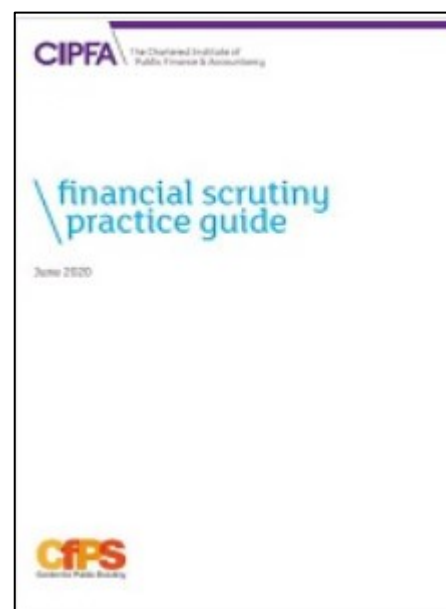
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

# Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>



## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

**Report to:** AUDIT COMMITTEE

**Report of:** Interim City Solicitor & Monitoring Officer and the Director Human Resources

**Report Author:** Assistant Director of Legal Services and DMO

**Date of Decision:** 28 July 2020

**Subject:** Process for the exit of Senior Officers

## 1 Purpose of Report

- 1.1 To inform Members of the process followed when Senior Officers leave the organisation and to provide assurance around the governance associated with any decisions taken especially where settlements are deemed appropriate

## 2 Decisions recommended

That Audit Committee:

- 2.1 Notes the process as outlined.

## 3 Process

- 3.1 The Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities is the national negotiating body for the pay and conditions of service of chief officers in England and Wales and provides the basis for the appointment and exit of senior officers.

- 3.2 The governance relating to JNC officers is contained within Part C7 of the Constitution.  
[https://www.birmingham.gov.uk/downloads/file/13657/part\\_c\\_constitution](https://www.birmingham.gov.uk/downloads/file/13657/part_c_constitution)

- 3.3 Senior officers leave the Council for many reasons:

### Resignation

- 3.4 In certain circumstances senior officers may wish to resign from their role. The period of notice on either side is three months, but this can be changed by mutual agreement, and considering business reasons.

### Retirement

- 3.5 Any employee age 55 or above can submit a request to leave the authority via voluntary early retirement. Pension estimates are usually provided via BCC internal pension team in liaison with West Midlands Pension Fund and are based on the accrual of pension benefits that the employee has contributed to the scheme and their

length of service, so they vary employee to employee. Authorisation is provided via the line manager and the JNC Panel for JNC officers.

#### Redundancy (compulsory and / or voluntary)

- 3.6 A situation may arise, where through an organisational restructure, or for some other reason, a senior officer's role may become redundant.
- 3.7 In this scenario, the City Council should consult with any senior officer affected at the earliest possible stage when there is a suggestion that the officer's post might be abolished or proposed for abolition.
- 3.8 If after such consultation a proposal is formulated to abolish the senior officer's post, and that is part of a proposal to dismiss 20 or more employees from one establishment within 90 days the procedure of Section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992, requiring consultation with trade unions, should be followed, the required statutory information being sent to the senior officer and to each independent trade union recognised by the employers for collective bargaining purposes for the senior officer.
- 3.9 Where the provisions of the Act do not apply in any event a period of not less than twenty-eight days should be allowed for the individual consultation process. The senior officer and a trade union representative should also be afforded an opportunity of making oral representations to the Committee or Council meeting concerned before a final decision is made.
- 3.10 If following such consultations, it is decided that the post must nevertheless be deleted, the officer should be offered any suitable alternative employment that may be available, or which may become available in consequence of the re-organisation giving rise to the deletion of the senior officer's post.
- 3.11 Consideration should be given to the possible application of discretionary powers of premature retirement, and permissible enhancement of benefits or redundancy payments, and the possibilities of providing an alternative post or of extending the period of notice to assist the senior officer in finding other employment.
- 3.12 Where the senior officer in question is a Director Public Health in England then the redundancy must comply with section 73A of the National Health Act 2006, which provides that before terminating the appointment of its Director Public Health, a local authority must consult the Secretary of State for Health.
- 3.13 In certain instances, the Council may invite requests for voluntary redundancy/early retirement. This option would generally be during the budget process and would be administered via a corporate redundancy trawl.

#### Budgetary implications

- 3.14 Each service area will take heed of budgetary constraints and restrictions when considering redundancy and retirement of any JNC officer. Commercial considerations will be evaluated in order for service areas to make appropriate decisions which will also take a view of budgetary limitations within the service area.

### Disciplinary proceedings

- 3.15 In circumstances where a senior officer is faced with allegations of misconduct, or gross misconduct, the ACAS Code of Practice requires there to be an investigation to establish the facts of the case before proceeding to the disciplinary hearing.

### *Suspension*

- 3.16 Where the senior officer's continuing presence at work compromises the investigation or impairs the efficient exercise of the Council's functions, the officer may be suspended.
- 3.17 The employee will receive full pay whilst they are suspended and their employment rights will not be affected by the suspension. Unless there is a specific clause within the contract (which there isn't in Birmingham) most suspensions are on full pay, even when part of a disciplinary process. Whether payments such as overtime or commission are included depends on the precise wording of an employment contract.
- 3.18 The decision to suspend a Chief or Deputy Chief Officer shall be made by the Chief Executive (Head of Paid Service) in consultation with the Leader of the Council, Deputy Leader and HR Director. In practice, however it would be expected that the Opposition party leaders and the City Solicitor would also be consulted on such matters to ensure compliance of procedures and process is adhered to. Written notice stating the reasons for any such suspension shall be given at the earliest opportunity possible.
- 3.19 The decision to suspend the Chief Executive (Head of Paid Service), Monitoring Officer and Chief Finance officer shall be made by the JNC Panel.  
The responsibility for implementing the suspension of the Chief Executive will be the HR Director with the Leader of the Council and the responsibility for implementing the suspension of the Monitoring officer and Chief Finance officer will be the Chief executive and HR Director.
- 3.20 Prior to any suspension it is recommended that a fact finding or preliminary investigation is conducted in order to assess whether the suspension is justifiable / reasonable or proportionate. The preliminary investigation will also determine whether a question of discipline exists which, if established, could not be resolved informally.
- 3.21 The necessity for the senior officer to remain suspended should be reviewed at regular intervals and where possible lengthy periods of suspension should be avoided.
- 3.22 The responsibility to implement the suspension, or to implement action short of dismissal, shall be the responsibility of the Head of Paid Service or their designated nominee.

### Investigation

- 3.23 The JNC believes that, for senior officers, an investigation should be carried out by an independent investigator.

- 3.24 Once appointed it will be the responsibility of the independent investigator to investigate the issue(s)/allegation(s) and to prepare a report stating whether (and, if so, the extent to which) the evidence obtained supports any allegation of misconduct or incapability, and recommend any disciplinary action or range of actions as appropriate.
- 3.25 The amount of time required to be spent on the investigation will depend on the case. Due to the demands on their time, availability of witnesses and evidence gathering. The independent investigator could decide to delegate some of the investigation work to an assistant. This should be agreed with the commissioning officer.
- 3.26 Based on the independent investigator's report the commissioning officer will determine if any disciplinary issues arise and, if necessary, meet with the officer and their representative to establish the disciplinary hearing process and in accordance with ACAS guidance. Alternatively, there could be a number of options available including action short of dismissal.

#### Dismissal

- 3.27 The JNC Panel may dismiss or take disciplinary action short of dismissal.
- 3.28 Membership of the JNC Panel shall comprise the Leaders of the three main political parties (or their nominees), and two other members subject to the proportionality rules. The Chair of the Panel will be the Leader of the Council or his/her nominated deputy. Please refer to the attached Appendix 1 which contains details of process and Appendix 2 which outlines a sample report.
- 3.29 Dismissal or disciplinary action short of dismissal can only take effect where no well-founded objection has been made by any member of the Cabinet. Any objection needs to relate to the Council's disciplinary, capability and related procedures and policies and be sent to the Director HR, which will then be presented as below to the JNC panel.
- 3.30 In the event that a reasoned objection is received, the Director of HR shall refer the matter to a specially convened meeting of the JNC Panel (the members of the specially convened Panel must be the same members who recommended the dismissal/disciplinary action) and the decision of this specially convened Panel will be final.
- 3.31 If the senior office raises a grievance during the disciplinary / capability process these should be dealt with in accordance with the Council's relevant procedures at the relevant time or as set out in the Chief Officer Handbook Joint Negotiation Committee in force at the relevant time.

#### Capability

- 3.32 Where appropriate, a preliminary investigation should be undertaken where there is any question or complaint regarding the capability of a senior officer.



- 3.33 If the Chief Executive, or his/her designated nominee, undertaking the preliminary investigation concludes that there is a question of substance as to the senior officer's capability, they should advise the senior officer informally of the nature of that question. There should be a full discussion covering:
- The reason for incapability;
  - Problem areas;
  - What needs to be done to improve performance, including any opportunities for training;
  - Time frames over which improvements should be shown;
  - When it is felt that there is no prospect of improving the senior officer's performance a satisfactory outcome may be achieved by the senior officer undertaking to seek other employment, resigning or accepting retirement.
- 3.34 At capability hearings an officer subordinate to the senior officer may give evidence of fact. Where the parties disagree on technical or professional matters it may be useful to refer to an appropriately qualified independent third party.
- 3.35 Any time period should be sufficient to allow a reasonable opportunity for the senior officer to show either an improved performance or that the conclusion of the preliminary investigation was mistaken.

#### Informal conciliation

- 3.36 In general, informal conciliation is to be preferred to formal procedures if it can bring about a mutually agreed solution to the problems that have arisen. Such solutions should make it clear what specific changes in behaviour and/or performance are expected and within what timescales.
- 3.37 In certain circumstances it may be appropriate to enter into mediation with an independent mediator to reach a mutually agreed solution. This can include circumstances where a claim has been submitted through the Employment Tribunal.
- 3.38 If the parties are unable to reach a satisfactory conclusion, then in certain circumstances it may be appropriate to enter into discussions with ACAS. If these discussions lead to the termination of the senior officer's employment this could include a settlement. This could include situations where the officer has raised complaints with the disciplinary process and has issued, or threatened to issue, proceedings in the Employment Tribunal. In these circumstances it may be appropriate to consider settlement for commercial reasons, where the amount being claimed would exceed the costs and legal costs of defending. Settlement will not be appropriate for every case, and each case should be judged on its own merits before a final decision is made.
- 3.39 If a settlement agreement is required, this would be something that would be agreed in advance by the JNC panel and the parameters for the mediation set by the Panel.
- 3.40 The City Solicitor is authorised to settle proceedings up to the value of £500,000. Decisions above that figure would need to be signed off by the Chief Finance Officer and/ or the Chief Executive in consultation with the City Solicitor, within the parameters previously agreed by the JNC Panel.

3.41 The final sign off would then be concluded using a formal and confidential agreement (e.g. a COT3 agreement). This would set out the basis of the terms agreed between the parties and include details of the settlement amounts under each of the heads of term. It could also include such things as agreed media messages and references. Once finally concluded, the agreement would be signed off by the relevant Officer(s) in accordance with the Scheme of delegation contained within Part E of the constitution and is a legally binding document to all parties.

3.42 After the conclusion of any mediation including a settlement, the members of the JNC panel would be notified as would the External auditor.

#### **4 Compliance Issues**

4.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies:  
Yes.

4.2 Relevant Ward and other Members/Officers etc. have been consulted on this matter:  
The Chair of Audit Committee has been consulted.

4.3 Relevant legal powers, personnel, equalities and other relevant implications:  
Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

4.4 Will decisions be carried out within existing finances and resources:  
Yes.

#### Main Risk Management and Equality Impact Assessment Issues:

The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

#### **Contact Officers:**

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**The Joint Negotiation Committee (JNC) for Chief Officers of Local Authorities**

The Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities is the national negotiating body for the pay and conditions of service of chief officers in England and Wales.

The Local Authorities' side consists of elected members nominated by the Local Government Association and the Welsh Local Government Association. The Staff side consists representatives of GMB and UNISON.

The Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities provide advice and guidance via an on-line 'Conditions of Service Handbook for local authority Chief Officers' known as the JNC Handbook. This is used for general principles, and it is also advised to set up sub-committees with local authorities to deal with employment matters.

**Standing Orders and Delegations**

The above rules shall be regarded as Standing Orders of the Council for the purposes of The Local Authorities (Standing Orders) (England) Regulations 2001 ('the 2001 Regulations') and Local Authorities (Standing Orders) (England)(Amendment) Regulations 2015 ('the 2015 Regulations').

Birmingham City Council has delegated to the Chief Officer and Deputy Chief Officer Appointments, Dismissals and Service Conditions Sub-Committee (the 'JNC Panel') the responsibilities set out in these employment procedure rules.

**Composition of JNC Panel**

Membership of the JNC Panel shall comprise the Leaders of the three main political parties (or their nominees), and two other members subject to the proportionality rules. The Chair of the Panel will be the Leader of the Council or his/her nominated deputy.

The quorum for each meeting of the JNC Panel is five Elected Members – cross party.

There may be circumstances when a decision of the JNC Panel may be agreed by all five members of that Panel in consultation with the Chief Executive and Director of Human Resources and Monitoring Officer or their nominated deputies without an actual meeting of that Panel taking place. The exercise of such decision shall be noted on the record of decision including setting out the reasons for the urgent circumstances.

Each time the Chief Officer and Deputy Chief Officer Appointments, Dismissals and Service Conditions Sub-Committee (the 'JNC Panel') meet there is an agenda, associated report(s), supporting appendices and minutes to record the decisions taken.

A typical sample template report is provided below at Appendix 2.

**BIRMINGHAM CITY COUNCIL**  
**REPORT TO COUNCIL BUSINESS MANAGEMENT SUB-COMMITTEE**  
**CHIEF OFFICER AND DEPUTY CHIEF OFFICER APPOINTMENT AND**  
**DISMISSALS**

PUBLIC / PRIVATE REPORT
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<b>Report to:</b>	<b>CHIEF OFFICERS AND DEPUTY CHIEF OFFICERS APPOINTMENTS DISMISSALS AND SERVICE CONDITIONS SUB-COMMITTEE</b>
<b>Report of:</b>	
<b>Date of Meeting:</b>	

<b>Subject:</b>	
<b>Relevant Committee Member(s)</b>	
<b>Relevant Chief Officers:</b>	

<b>1.</b>	<b>Purpose of Report:</b>
1.1	

<b>2.</b>	<b>Decision(s) Recommended:</b>
2.1	That the Committee:

<b>3.</b>	<b>Consultation:</b>
3.1	

<b>4.</b>	<b>Background and Context:</b>
4.1	

5.	<b>Options:</b>
5.1	
6.	<b>Human Resource Implications:</b>
6.1	
7.	<b>Financial Implications:</b>
7.1	

8.	<b>Legal Implications:</b>
8.1	
9.	<b>Public Sector Equality Duty:</b>
9.1	
10.	<b>Reason for Decisions:</b>
10.1	

<b>Background documents (if any):</b>
1.

<b>Appendices (if any):</b>
1.

**BIRMINGHAM CITY COUNCIL****AUDIT COMMITTEE****28 JULY 2020****SCHEDULE OF OUTSTANDING MINUTES**

<b>MINUTE NO./DATE</b>	<b>SUBJECT MATTER</b>	<b>COMMENTS</b>
193 28/01/2020	<b><u>Travel Assist</u></b>  The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries.	Report due in 26 Jan 2021.
195 28/01/2020	<b><u>Audit Committee – Future ways of Working</u></b>  The Committee agreed a draft proposal on future ways of working of the Audit Committee to be shared at the 24 March Committee.	Due to cancellation of 24 March 2020 Committee, proposals will be shared 28 July 2020.
214 30/06/2020	<b><u>Any other Business</u></b>  The process followed when Senior officers exit the Authority to be shared at the 28 July Committee.	Report due in 28 July 2020.

