

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 16 DECEMBER 2019

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON MONDAY, 16 DECEMBER 2019 AT 1000 HOURS IN COMMITTEE ROOM 2, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Bridle, Quinnen and Jones.

NOTICE OF RECORDING/WEBCAST

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

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

APOLOGIES

- 171 Apologies were submitted on behalf of Councillors Tilsley, Webb and Jenkins for their inability to attend the meeting. Councillor Jones would be arriving late to the Committee and join accordingly.
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DECLARATIONS OF INTEREST

- 172 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.

No interests were declared.

At this point in the proceedings the Chairman proposed and Members agreed to move into Private session to discuss the item on Travel Assist and members of the public were excluded from the room.

EXCLUSION OF THE PUBLIC

173 **RESOLVED:-**

That, in view of the nature of the business to be transacted, which includes exempt information of the category indicated, the public be now excluded from the meeting:-

Exempt Paragraph 7

At this point in the proceedings it was noted that the meeting was in 'Public' session to which members of the public were invited back into the room.

PUBLIC MINUTES – AUDIT COMMITTEE 24 SEPTEMBER 2019

174 **RESOLVED:-**

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

CORPORATE RISK REGISTER UPDATE

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

(See document No. 1) – (Page 13)

Sarah Dunlavy, Assistant Director for Audit and Risk Management, introduced the report and gave an update on the management of risks and issues contained within the Corporate Risk Register.

The following key points were noted:

- 1) Amendment to the risk 17 on page 46 – Reworded from 'Ineffective Corporate Risk Marker IT' to 'Staff harm by not sharing data effectively'.
- 2) In relation to risk 17, a project group is being established to develop a supporting action plan.
- 3) The Members have a key role within the risk management and internal control processes.
- 4) The Deputy Leader and the Council Leadership Team (CLT) review the Corporate Risk Register on a monthly basis in order to strengthen oversight arrangements.
- 5) The Non-executive advisors are now in place.
- 6) In order to give greater focus to risks, CLT had been developing a Strategic Risk Register which will be brought to the Audit Committee in early 2020.

- 7) The risk Management Framework will come back to Audit Committee in January 2019.
- 8) The full form of risk register will be available in March 2020.
- 9) Main change in the risk register is on page 52 (Risk 15) around property assets) which requires a fundamental strategic focus as there are operational and strategic issues.
- 10) This will be given the same level of priority as the HS2 and Commonwealth Games – Athletes Village.

The Chair stated there is a long list of risks and questioned if there was a coherent way to link these. It was felt that wider discussions needed to take place of how this Committee engaged with the risk register and this would be discussed in the January meeting.

An example of this would be the governance on the waste crisis in which the risk had now reduced and look at why this risk had been reduced.

Sarah Dunlavey shared that a report to CLT was delivered on a monthly basis in which it looked at where the risk was going every month therefore monitoring the reduction. It was noted that there were various systems across the Council which had risk markers embedded. However, only one system at a time could be accessed and could not be accessed by all users. The original risk marker solution did not work. The audit data warehouse had been updated and there was now a temporary solution for people to go out to properties safely.

Upon consideration, it was:

175

RESOLVED:-

- (i) That the CPR updates detailed in Section 3 of the report be noted;
 - (ii) That the Committee had reviewed the CRR and assessed that no further action be required.
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BIRMINGHAM AUDIT HALF YEAR UPDATE REPORT 2019/20

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

(See document No. 2) – (Page 95)

Sarah Dunlavey, Assistant Director for Audit and Risk Management, provided information on the outputs and performance measures in relation to the provision of the internal audit service during the first half of the year of 2019/20.

It was noted that internal Audit Service had sought to add value to the organisation.

- 1) 36% of the planned jobs have been delivered and the aim is to complete 95% by 31st March 2020.

- 2) There had been 104 final reports issued to date of which 2 reports were given a high-risk rating.
- 3) In total 24 social housing properties had been recovered to date and 5 grant audit certificates had been issued.
- 4) Expenditure is being monitored on 3 European Grants.

The 2019/20 Audit Plan was approved by the Audit Committee at its March 2019 meeting. There is ongoing work with the Children's Directorate to develop a more focused approach to support the challenge of dealing with financial management in schools. Education and Skills Directorate was undertaking a Directorate wide review of safeguarding to establish whether safeguarding is embedded in commissioned services. Several fraud awareness courses have been delivered. A protocol of sharing reports is in place to which all reports are given a risk rating.

The Assistant Director, Audit and Risk Management referred to point 3.3 of Birmingham Audit Half Year Report 2019/20 in which a summary of reactive investigations activity (referrals) of the team for which the sub team had been assigned to tackle.

The number of properties recovered had decreased from 87 in 2017/18 to 24 in 2019/20 in the first half of this year.

The highest investment is in Cultural Change Programme and workshops had taken place.

Appendix A of the report, linked the Council's priorities and repeated ratings with follow up reports.

Appendix B indicated there is a high-risk rating to 2 red reports;

- Adult Social Care Directorate – Placement, Supported Living as they have not been reviewed for several years.
- Neighbourhoods Directorate – Budget Management and Monitoring – The Directorate still appear to come across significant financial pressures.

It was noted that School Visits there is a need to respond to financial pressures and ensure effective financial planning remains. Any school at level 3 assurance and high-risk rating would receive a visit at 3 monthly intervals to enforce actions. Following 9 months, if insufficient action had taken place then the School Finance Governance Board would be notified and a warning notice be issued.

Councillor Bridle queried if the schools referred to in the report were all Birmingham Local Authority Schools. It was confirmed by Sarah Dunlavy that this was the case.

The Chair questioned what further actions needed to be taken. The Committee was informed the draft reports would be issued in March 2020 and jobs are scheduled accordingly. If there is no co-operation by officers, then this would be escalated back to Sarah Dunlavy to resolve. The revised protocol would be brought back to Committee in January 2020.

Councillor Quinnen referred to page 16 of the report. In particular to Neighbourhoods Directorate Budget Management and Monitoring as this was highlighted in 'red'. The question arose as to the cause of this rating. Sarah Dunlavy clarified this report incorporates 18/19 budget and finalised in 19/20. This is based on the previous year and highlights temporary accommodation where mitigating actions did not come into place to relieve budget pressures.

Rebecca Hellard, Interim Chief Finance Officer added that a report will be going to Cabinet in March 2020 and significant work is taking place in the Star Chamber.

The Chair questioned if there was a culture of risk awareness and what kind of barriers are raised upon this. In response, it was clarified that there are a number of risk representatives and they need to be brought together. Operational risks would have a clear escalation route and will be part of the Risk Strategy brought back to Audit Committee in January 2020.

It was noted that there are 2 red risk reports and the Committee will need to know how this is managed and monitored. Residual risk is reported to CLT on a monthly basis, followed by a quarterly report to Audit Committee.

Point 3.3.4 of the report mentioned that properties recovered had decreased and how is this reflected on the Council Tax charged. Officers clarified this is a half year overview rather than a full year illustration. Figures for 17/18 have been higher than it has ever before. There is no responsibility on Housing benefits.

In addition to this, it was noted that this is linked to a data warehouse where anomalies can be identified.

Upon further consideration, it was:-

176

RESOLVED:-

- (i) That the level of audit work and assurances provided be noted.

GRANT THORNTON – ANNUAL AUDIT LETTER

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

(See document No. 3) – (Page 115)

Rebecca Hellard, Interim Chief Finance Officer advised that Martin Stevens, Head of City Finance Accounts would provide the update as she was not in post for the relevant period.

Martin Stevens made introductory comments to the report. Grant Thornton (BCC's External Auditors) were required to produce an Annual Audit Letter which is shared with all members of the Council.

It was noted that the external auditor concluded that the Council has a number of weaknesses which were identified through value for money assessments. There had been significant improvements over the last year by the Council, however it was concluded that value for money risks have been generally mitigated. The Audit Letter for 2018 that considered mitigations up to 31 March 2019 are related to:

- 1) Budget Delivery and Reserves Management,
- 2) Common Wealth Games,
- 3) Services for Vulnerable Children
- 4) Management for Schools

The Highways Maintenance and Management PFI contract had been mitigated for the year ending 31 March 2019. In addition to this, the Waste Service and Governance are other areas where the value for money had not been sufficiently mitigated.

Paul Dossett, Engagement Leader, Grant Thornton added this is based on the Audit findings in July and finalised in September. The Accounts were completed on 8th October. Several audits are still to be assigned to 18/19 Audit and this was a summary of the situation in September 2019.

Audits on Waste is the only area that has not been migrated as there were ongoing governance processes relating to that.

Paul summarised by saying that this is a positive story even though it is complex however, now moving into a positive direction.

Councillor Bridle queried around the Commonwealth Games and the risk opposed to the Council. Members felt that this is crucial to keep on the agenda as there are always ongoing new financial challenges occurring to which Birmingham City Council must pay for. Assurances are required to make sure the Council's delivery on Services are not affected.

Paul Dossett responded the Council had a clear process for mapping the risk. Revenue impact and scale of risk was relatively small.

Clive Heaphy, Interim Chief Executive for BCC, added that in relation to the external funding 55 million has been secured. The Commonwealth Games has been given the same category and priority as the HS2. Over the course of 2 days, there had been a focus on the delivery of the capital infrastructure. It had been identified that the City Council were well in advance of where it needed to be considering it was a 4-year plan when normally it is over 7 years.

In summary the position was positive even though there will be challenges in which the impact will need to be reduced.

The Chair referred to the governance of waste service and how this translated to wider governance. It was noted that Grant Thornton in conjunction with BCC was looking for an arrangement to manage a clear process to control risks. Previously, the Waste Service never had adequate processes in place which were reported or concluded. That led to various industrial actions during 2018/19. Clear governance is required to manage this and mitigate risks. The Chair added consideration needed to be given to the wider governance lessons and what had been learnt in order to change the approach.

In response, Paul Dossett stated that previously issues were not addressed widely enough and this was now an opportunity to 'reset the dial'.

Clive Heaphy concluded the discussion by stating that the Waste Management Service is very complex and citizens deserve the best possible service. The Wood Review is currently going through Government and will be shared at Cabinet. Industrial relationships are constructive and by collaborations, the workforce can provide the best service for the Council.

The Chair thanked colleagues from Grant Thornton and BCC for the work on this.

177

RESOLVED:-

That the Annual Audit Letter be received and noted.

GRANT THORNTON – EXTERNAL AUDITOR UPDATE

The following presentation from Grant Thornton was submitted:-

(See document No. 4) – (Page 141)

Paul Dossett, Engagement Leader, Grant Thornton, delivered a powerpoint presentation on the Redmond Review December 2019. The Redmond Review was a National review and not local.

At this point (10.55am), Councilor Josh Jones joined the Audit Committee.

Paul Dossett summarized that Audit across the board had been under immense scrutiny since the closures of companies such as Carillion, Thomas Cook and many others. Government are undertaking a series of reviews in order to regulate role and look at the impact and effect. Government had been reviewing the market structure and audit quality. This is being led by Sir Tony Redmond who was a former President of CIPFA. Originally launched in 17 September 2019 and the report to the Secretary of State had been extended to Summer of 2020.

There were concerns around the time to implement the reform since it was felt this is currently very slow.

The length of the financial statements (excluding opinions) had increased from 91 pages in (2008/09) to 219 pages to (2018/19). Local government had changed over the years and there are now longer more complex accounts and lower fees applied.

Key points highlighted:

- 1) Accounts have grown more complex
- 2) Authorities are engaging more innovative/ unusual transactions

- 3) Austerity had reduced the ability of many authorities to prepare high quality accounts and working papers
- 4) Audit fees have fallen to an unsustainably low level
- 5) The sign off date of 31 July is too tight
- 6) Retention of key people is very difficult in this environment
- 7) Authorities are not getting the service they deserve
- 8) Radical and urgent reform is needed.

In response to the review, it is proposed that a 'system wide' solution is needed that include:

- The establishment of a separate regulator for the local audit
- Rebasing of audit fees to a level which reflects the additional work we are now undertaking
- A simplified CIPFA Code/ tiered approach
- Revised approach to Value for Money
- Move the target publication date for LG accounts back to 30 September.

The Chair thanked Paul for a comprehensive overview.

Councillor Bridle welcomed the way forward on this. CIPFA were going to arrange an event for Councillors to be trained on this however this was cancelled. Members would want this training for audit in order to maximise their role on the Committee. This would also be a chance to see how other authorities are undertaking this area of work.

Jon Roberts, Grant Thornton indicated that the external auditors are looking to spend time with Audit Committee members and strengthen that work. Rebecca added that there are conversations taking place with CIPFA to support the Committee and review future ways of working.

Councillor Jones queried whether a change to the deadline for signing off the accounts would have a significant impact as only 75% of accounts for 2018/19 had been signed off by this date.

It was noted that there is constant slippage due to movement of deadline and more will need to be invested in people carrying out the audit. Effective planning needs to take place by allocating specialist staff to cover the work.

The Chair thanked and appreciated the work undertaken by Grant Thornton and look forward to the ability for the Secretary to deliver this audit review. An effective Audit letter would be required and it would be interesting to do an expanding piece of work on this. A response from BCC has been submitted with relevant associations. It was felt that a good level of competence was required in order that Committees could work effectively.

Clive Heaphy welcomed the report and appreciated that there have been resource constraints in relation to closing down processes quickly. His closing remarks were that it is crucial to obtain audit assurance and to avoid end of year panic. Members of the public are not interested in the technical details but the delivery of services and value for money that was sustainable in the long term.

178

RESOLVED:-

That the presentation be received and noted.

AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT

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

(See document No. 5) – (page 157)

Rebecca Hellard, Interim Chief Finance Officer delegated the reporting to Martin Stevens, Head of City Finance Accounts as she was not present during this timeframe.

He advised that, at the 24 September 2019 Audit Committee, Members had considered the External Auditor's Audit Findings Report following the audit of the Council's financial statements for 2018/29 which included six recommendations for management to consider and action.

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. Those entries were not reflected in the accounts and had been amended appropriately in the ledger, so that there is no impact on the 2018/19 accounts. It was ensued that this issue will not occur again in the future and will be closely monitored.

As part of the review, IT Controls on SAP user access had been identified as too wide. Therefore, this will be monitored on a daily basis.

There were two issues around asset valuation on which there were 3 recommendations in total. This would be undertaking a formal review to which external valuers are overlooking. Payments were assigned to the wrong year and workflow on voyager will be closely reviewed. Hotspots are being identified on which guidance will be given.

A further report will be shared at Committee which will identify and address those issues.

179

RESOLVED:-

- (i) That the progress in implementing management actions, attached as Appendix 1 of the report, to address the recommendations set out by the External Auditors in his Audit Findings Report issued in September 2019, be noted;
 - (ii) That updated reports be submitted to a future meeting of the Committee on the continued progress in implementing the management actions proposed.
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TRAVEL ASSIST

180

RESOLVED:-

That this item be deferred for consideration at the Committee meeting on 28 January 2020.

SCHEDULE OF OUTSTANDING MINUTES - 2019

The following schedule of Outstanding Minutes was submitted:-

(See document No. 6) – (Page 167)

The Chair introduced the Schedule of Outstanding Minutes.

Minute 99 – Early Years Health & Wellbeing Risk – Deferred to January 2020.

Minute 147 – HRA – To Fund the Waste Service during Industrial Action Strike 2017 – Discharged. It was agreed a written statement will be sent to Councillor Jones.

Upon further consideration it was

181

RESOLVED:-

That the remaining Outstanding Minutes be continued.

The Chair suggested the Audit Committee agendas should be structured so that both the Directorate and Cabinet Portfolio members are questioned and have particular focus on their specific areas.

It was proposed to have an Annual report of the Audit Committee report to City Council. That would assist in linking the value for money and risk register work.

There are a number of reports that come to Committee routinely and there is now a requirement for these to be condensed i.e. reports could be noted for information to allow more focused discussions on individual audits of Directorates.

Upon further consideration it was

182

RESOLVED:-

That a discussion on the future ways of working for the Audit committee to take place at the 28 January 2020 meeting.

DATE AND TIME OF NEXT MEETING

The next meeting was scheduled to take place on Tuesday 28 January 2020 at 1400 hours in Committee Room 6.

AUTHORITY TO CHAIRMAN AND OFFICERS

183

RESOLVED:-

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

EXCLUSION OF THE PUBLIC

184

RESOLVED:-

That, in view of the nature of the business to be transacted, which includes exempt information of the category indicated, the public be now excluded from the meeting:-

Exempt Paragraph 3