

# BIRMINGHAM CITY COUNCIL

**AUDIT COMMITTEE  
25 NOVEMBER 2020**

## **MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON WEDNESDAY, 25 NOVEMBER 2020 AT 1400 HOURS - ONLINE MEETING**

### **PRESENT:-**

Councillor Grindrod in the Chair;

Councillors Akhtar, Bridle, Jenkins, Morrall, Quinnen and Tilsley

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

250 The Chair 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**

251 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.

- Councillor Grindrod declared he was a Non-Executive Director for Acivico Ltd which was referred to in the Statement of Accounts – (Appendix 4). (Non-pecuniary interest).
- Councillor Tilsley declared he was a Non-Executive Director for Birmingham Airport which was referred to in the Statement of Accounts – (Appendix 4, page 58). (Non-pecuniary interest).
- Martin Stevens declared he was a Director on some of the PETPS Companies that were consolidated within the Statement of Accounts – (Appendix 4).

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At 1404, the meeting was adjourned due to technical difficulties.

At 1405, the meeting was reconvened.

**APOLOGIES**

252 There were no apologies submitted.

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

The Chair notified the Committee, item 7 Statement of the Accounts, appendix 2 would be taken in a private session under exempt paragraph 3.

253 **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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**MINUTES – AUDIT COMMITTEE – 20 OCTOBER 2020**

254 **RESOLVED:-**

That the minutes of the last meeting were agreed. There were no matters arising.

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**ANNUAL GOVERNANCE STATEMENT**

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

(See document No.1)

The Interim Chief Finance Officer gave a summary around the Annual Governance Statement (AGS) which formed a part of the Statement of Accounts for 2019/20.

An overview was given around the 8 key issues highlighted in the AGS for the Council which may impact on the organisation's governance arrangements. These key issues were;

- Covid-19 Pandemic
- Financial Resilience
- Major Projects and Partnership Working
- Homelessness and Safety Implications for Tower Blocks
- Asset Condition and Sufficiency
- Commonwealth Games (CWG)
- Commissioning and Contract Management
- Birmingham SEND Inspection – Inadequate provision and Written Statement

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of Action required

The Assistant Director, Audit & Risk Management informed the Committee the AGS was a key part of the overall assurance process. The key issues coincided with the Cabinet Members Assurance Sessions which the Audit Committee had implemented. The process for next year had started by defining what questions should be asked to all the business units within the Directorates.

### **Members response**

The Committee then asked questions of the Interim Chief Finance Officer and the Assistant Director, Audit & Risk Management and the following points were noted:

- The Chair referred to the Audit Committee's Assurance Sessions and upon reviewing these sessions, if further development work was required.  
In response, the Assistant Director, Audit & Risk Management noted the Assurance Sessions had been working well. The Audit Committee had kept focus on the governance, risk and assurance agenda. As part of the Assurance Sessions, background packs were provided to Members as guide to enable direct questioning on focussed areas.
- Councillor Bridle noted lessons had been learnt during the pandemic, especially as the Council had entered a long emergency period. She noted initially, there were issues around decision making process and the lack of accountability and transparency however, the decisions made during this period were eventually placed in the public domain. It was emphasised though there was a command structure in place, the accountability was with the Council therefore it was crucial transparency was always in place.

Councillor Tilsley echoed Councillor Bridle's point as there were initial concerns around the decision-making process during this period.

In response, the Assistant Director, Audit & Risk Management informed Members, emergency powers would only be used when required. The transparency was re-established by decisions undergoing immense scrutiny to ensure these were recorded correctly before they were published.

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### **RESOLVED:**

That the Committee;

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

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### **STATEMENT OF ACCOUNTS 2019/20**

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

## Audit Committee – 25 November 2020

(See document No.2)

The Interim Chief Finance Officer informed Members the Statement of Accounts had been shared at a previous Committee. Reference was made to the Audit adjustments which had been agreed between BCC and the External Auditors. She noted there was still outstanding audit work to be completed.

The Head of City Finance notified Members the draft Statement of Accounts were submitted to the External Auditors on 28 August 2020 to enable them to undertake their audit work. He highlighted three errors which had been identified. These were around;

- i) Housing Revenue Account Dwellings - An incorrect valuation being entered in the calculation of 1 bed maisonettes within the HRA which led to an overstatement in the Council Dwellings valuation. Reduction in value of £23.2m.
- ii) Tyseley Waste Centre - An incorrect value being entered in respect of Other Land & Buildings which led to an understatement in valuation. Increase in Tyseley of £2.4m.  
These adjustments had no impact on the Council's level of usable reserves.
- iii) At its meeting on 10 November 2020, Cabinet agreed to amend the revenue outturn for 2019/20 through the replacement of £8.7m of Direct Revenue Financing of Capital. This was undertaken by increasing the Council's Capital Financing Requirement, thereby increasing the level of usable reserves available to the Council to provide additional resilience against the financial consequences of the actions taken to mitigate the impact of Covid-19.

### **Members response**

The Committee then asked questions of the Interim Chief Finance Officer and the Head of City Finance and the following points were noted:

- Councillor Jenkins queried what was the current materiality threshold and why was the decision made not to make any provisions to keep Birmingham Airport viable.  
In response, the Head of City Finance informed Members that for a provision to be recognised it had to meet three specific areas under the accounting standards.  
These were; i) there had to be a past event for a provision to be made; ii) there had be some probability that resources were transferable; iii) the transfer could be reliably estimated.

Unfortunately, Birmingham Airport did not meet the criteria therefore, this was reflected correctly in the accounts. It was noted Birmingham Airport may be a need support in the future.

The level of materiality for Birmingham City Council was £34.354 million pounds.

## Audit Committee – 25 November 2020

- Councillor Morrall referred to page 132 of the Statement of Accounts (page 236 of the document pack), which listed officer's renumeration/ salaries. He noted names of officers were not listed due to GDPR reasons.

He referred to a document on the Information Commissioner's Office website, "*Requests for personal data about public authority employees - Freedom of Information Act Environmental Information Regulations*" with a focus on pages 13 -16 (section 3. Does the legitimate interest outweigh the interests and rights of the individual? Salaries and bonuses and termination of employment).

He felt there was no legitimate reason for officers' names not to be included in the accounts. Members would not be aware if there was any mismanagement of these individuals.

The City Solicitor informed Members there was no evidence of any mismanagement and proposed to have a discussion with Councillor Morrall outside of the meeting to discuss any further queries in accordance to data protection guidance.

Councillor Jenkins supported comments made by Councillor Morrall. He hoped following the briefing session with Councillor Morrall this would be clearer.

The Chair highlighted Members should not assume the sum indicated was due to mismanagement as there was no evidence. He advised Members to view this as a legitimate action until there was evidence otherwise. The process and sum of the amount could be questioned however, it was not appropriate for the Committee to automatically conclude this was due to mismanagement given there were other routes that this amount could be achieved.

The Head of City Finance further explained, the External Auditors would need to be satisfied before they can sign off the accounts. He highlighted there could be minor changes before the accounts were fully signed off therefore, proposed the Audit Committee to agree to delegate the sign off of the Accounts to the Chair of the Audit Committee and the S151 Finance Officer.

### The Audit Findings for Birmingham City Council – External Auditor

The following appendix 1 of the External Auditors was submitted: -

(See document No.3)

The Key Auditor Partner, Grant Thornton set out the headlines and other matters arising from the statutory audit of Birmingham City Council. These were around; Covid-19; Financial Statements; value for money arrangements and statutory duties.

The External Auditors were close to concluding their audit work with the BCC and the aim was to complete the audit by the 30<sup>th</sup> November 2020. A number of recommendations were made on both value for money audit and financial statements audit.

The External Auditors had additional formal auditors' powers that could be used in significant circumstances however, Grant Thornton were not proposing to use these powers for Birmingham this year.

**Financial Statements**

The Engagement Manager, Grant Thornton gave a comprehensive breakdown on the Financial Statements and the work set out to address the significant risks. The expenditure in this year's accounts was lower than last year's therefore, the materiality threshold had been changed. Members were informed the External Auditors were still undertaking expenditure testing around the Council's properties and awaiting supporting documentations.

In summary, there were two 'assumed' risks identified around the fraudulent revenue recognition and the management override of controls. The audit work around these areas were near completion and no issues had been raised. Further details were provided on the valuation work on land and buildings which referred to two errors highlighted earlier in the Committee by the Head of City Finance.

The financial statements contained a prior period adjustment. The Council disposed of two assets in 2017/18 but did not derecognise these in the accounts and the External Auditors thought that as the transaction was not material, the disposal should have been transacted within the 2019/20 year, and not as a prior period adjustment.

**Members response**

- Councillor Jenkins noted the error related to the Housing Revenue Account Dwellings and queried if this concerned one or more properties. He questioned if the External Auditors were concerned this error was not checked.

In response the Engagement Manager, Grant Thornton informed the Council valued their dwellings based on the Beacon Approach where properties were split into archetypes or similar constructions, styles etc. A sample from the archetypes were selected for evaluation and the valuation of the property was then incorporated to the whole portfolio. In this instance, the portfolio was overvalued.

As a result, the External Auditors recommended appropriate quality checks were delivered via the Council to ensure errors were addressed.

A further summary was provided by the Engagement Manager, Grant Thornton around the valuation of pension fund net liability and the valuation and completeness of equal pay liability.

There were some issues on the Group Audit around the consolidation process and the incorrect handling of VAT. Overall, the adjustments did not have an impact on the total balance sheet. There were minor adjustments on the disclosures as well as awaiting final confirmation from the Birmingham Children's Trust Audit Team.

## Audit Committee – 25 November 2020

At present there were no issues on the ‘going concern’ assessments however, the Council were answering questions that had been raised by the External Auditors.

It was noted there were two outstanding matters of communication around the third-party requests. Confirmations and assurances were still being undertaken.

The Government’s Accounts procedures work had started, and the consolidation pack was being produced. It was noted this work may not be completed in time however, the audit report would be issued without the certification of completion of the audit.

The External Auditors had undertaken additional work for the Birmingham City Council since 1<sup>st</sup> April 2019. Therefore, an additional fee was proposed for this Audit which was above the scale fee. Any additional fees were subject to agreement by the PSAA.

### **Members response**

- Councillor Jenkins referred to the audit fee for Acivico Limited indicated as £35k. He queried the turnover for the company as most of the services were provided to Birmingham City Council.

At this juncture, the Chair handed over to Vice-Chair to lead the Committee as Councillor Grindrod was a member of the Acivico Limited Board.

The Head of City Finance confirmed the turnover for Acivico Limited was £25 million.

Following this confirmation, the Chair was handed back to Councillor Grindrod.

### **Value for Money**

The Key Auditor Partner, Grant Thornton noted during planning the audit, five risks were identified.

This year, the External Auditors were qualifying against two specific areas however, the overall reflection on the value for money was the right assessment for Birmingham as part of their improvement journey. These two specific areas were;

- i) Council resilience & financial sustainability – This was a key risk applied to all Councils and there was no proposal for any qualification on this area for Birmingham. The Council were aware of Neighbourhoods and Education & Skills were two areas of recurrent overspend, which was being addressed.
- ii) Financial impact of the CWG – The External Auditors were satisfied with the Governance structure and supporting arrangements. The funding arrangements for the CWG was satisfactory though there was a funding gap which would be monitored.

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There was a qualification made against identifying, managing and monitoring risks relating to the financial impact of the Games. It was noted the key in year financial arrangement (Full Business Case completed in June 2019) was inadequate due to the financial difference.

As a result, the Council placed a revised business case which was sufficient in the opinion of the External Auditors.

In addition, the Perry Barr regeneration would be monitored by the Council and External Auditors.

### **Members response**

- Councillor Tilsley noted the CWG had £25m shortfall from partners which was a risk to the Council as Government had capped their contribution to the CWG. He queried why this was not a matter for qualification by the External Auditors.

In response, the Key Partner, Grant Thornton indicated there was still time remaining to close the funding gap as there were contingencies that could be utilised to offset the amount. This was a risk for the Council and would be reviewed in next year's accounts hence the reasoning why this was not a significant level of risk for a qualification. The External Auditors had recommended for the Council to close the gap as soon as possible.

- Councillor Jenkins noted the Perry Barr Scheme was the only part of the CWG the Council had sole responsibility for. He queried if the expected future value of the properties may be a risk to the Council therefore should this be recognised in the accounts.

In response, the Key Partner, Grant Thornton noted concerns raised however, the accounts were sufficiently presented, and the External Auditors were looking at the work for 2019/20. The Perry Barr Scheme was beyond those responsibilities and would be focused upon in a future audit.

Further summaries on contractual arrangements relating to the highways PFI Scheme; Waste service continuity and industrial relations and contract monitoring and management were provided.

### **Members response**

- The Chair queried what evidence had been presented to the External Auditors to give confidence the Waste service and industrial relations was improving.

The Committee were advised by the Key Partner, Grant Thornton this had been supported by the improved industrial relations referred to on pages 72 and 73 of the document pack. There had been constructive engagement relating to the Memorandum of understanding and working beyond. The sickness levels had reduced, and new working practices were positive.

At this juncture, the Chair noted the appendix 2 – Audit Findings Report would be shared in a private session.

At 1513 hours, the Committee moved to a private session.

**EXCLUSION OF THE PUBLIC**

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**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

Item 7 - Appendix 2 – Audit Findings Report for Birmingham City Council (Statement of Accounts).

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At 1527 hours, following discussions on appendix 2 – Audit Findings Report for Birmingham City Council (Statement of Accounts), the Committee moved back into the public meeting.

The Chair noted Councillor Morrall's earlier comments on the Statement of Accounts and GDPR queries. This did not change the implication of the accounts and he advised officers arrange a separate briefing.

At this juncture, Councillor Jenkins voted against the delegation of signing off the accounts and as the accounts were not complete. It was suggested rather than delegating the final sign off to the Chair of Audit Committee and S151 Finance Officer, an additional Committee would possibly be required.

The Head of City Finance clarified that if the accounts are not signed by 30 November, then they would be placed on the Council's website with a note to indicate the audit was still being progressed. The Audit would continue up until sign off.

A couple of options were shared by the Key Partner, Grant Thornton of how to progress the sign off of the accounts.

The Engagement Partner, Grant Thornton referred to the disclosure of renumeration and the external auditors had confirmed the breakdown of details were correct where a significant number was related to the pension strain and was not a payment to an individual. There was no requirement under the Accounting Standards and Local Government code for the name to be included.

Councillor Jenkins confirmed he was happy to support delegation of the accounts to the Chair of the Audit Committee and S151 Finance Officer as long as any further adjustments were clearly set out in an email for Committee Members to view prior to approval.

Councillor Tilsley and Councillor Morrall supported Councillor Jenkins proposals.

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Members were reminded management responses to the Audit Findings report would be presented at the next Audit Committee.

The Head of City Finance referred to the senior officers note and the names were not indicated following the financial regulation 2015 guidance. The requirements of the legislation were followed therefore the legal obligations had been met.

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### **RESOLVED:**

That the Committee;

- i) Noted the Audit Findings Report from Grant Thornton and accept the recommendations of that report;
- ii) Approved the Letter of Representation from the Interim Chief Finance Officer;
- iii) Approved the Statement of Accounts for 2019/20 subject to external audit clearance of any outstanding issues.  
In addition, agreed the following process for the Committee to approve the Statement of Accounts 2019/2020;
  - The External Auditors clearance of any outstanding issues will be notified to Members via email.
  - Members will be given the opportunity to study the External Audit clearance.
  - Members to notify the Chair if any of the issues have been identified from the External Auditor that requires an emergency Audit Committee to be held.
  - Otherwise, the delegation of the sign off the accounts to the Chair of the Audit Committee and S151 Finance Officer.
- iv) Noted that officers will arrange a briefing for Councillor Morrall to discuss Senior Officers' Remuneration table within the Statement of Accounts – (Non- disclosure of names and GDPR related concerns).

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### **ASSURANCE SESSION - CABINET MEMBER FINANCE & RESOURCES PORTFOLIO**

The Chair noted the Cabinet Member of Finance & Resources was in attendance however, due to the prolonged discussions on the Statement of Accounts, he proposed this to be deferred to the next Committee in order to allow more time for discussion on this item.

258

### **RESOLVED:**

That the Assurance Session for the Cabinet Member Finance and Resources to place at the next Committee in January 2021.

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**RETROSPECTIVE PURCHASE ORDERS**

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

(See document No.5)

The Head of City Finance highlighted the report was responding to a query raised by Councillor Tilsley at a previous Committee in respect of retrospective purchase orders.

Overall, the purchase order compliance for August 2020 was 97%. Within this total there was some 4% of purchase orders, based on total value, that were retrospectively raised. The Procurement Team were working with the Directorates. In particular, Neighbourhoods Directorate where a number of retrospective purchase orders related to purchase of services for homelessness through several different suppliers. The Directorate had since been advised to raise 'call off' orders in order to be compliant with procurement process. Support and advice have been given to service areas to try to reduce the level of retrospective purchase orders.

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**RESOLVED:**

That the Committee noted the information provided and the actions being taken to reduce the use of retrospective purchase orders.

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**INDEPENDENT ADVISOR TO AUDIT COMMITTEE**

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

(See document No.6)

Members were informed this was a consultative report to seek the Committee's view on what was required from an independent advisor. An outline of the draft person specification was shared setting out the requirements of the advisor.

Feedback from Core City auditors has been sought where independent members were in place. It was noted they offer valuable challenge and contributions.

Discussions took place of when the Independent Advisor would be expected to input to the Committees work i.e. pre-meetings, etc. Further detail would be provided at a later Committee of how the selection process would work.

**Members response**

- The Chair noted the Independent Advisor would be valuable to support in subject knowledge and give expertise on complex issues.
- Councillor Bridle was in support of an Independent Advisor as routinely the Committee discussed serious areas. The pre-discussions with an advisor who was well versed with good practice procedures would be valuable.

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addition, the advisor would have to have the knowledge of the challenges Birmingham City Council faces in Audit Committee.

- The Independent Advisor should be available outside of the Audit Committee for any key issues of discussion.
- Councillor Jenkins queried if the role was a paid position as there was a significant number of documents to read and this would have to cover the cost to read documents. In addition, he queried if the Audit Committee would be involved in the recruitment of the position.
- Councillor Tilsley supported comments made by Councillor Jenkins. He was in favour of having an Independent Member to the Committee, however, was happy for the alternative option of an Independent Advisor.

In response, the Assistant Director, Audit & Risk Management notified Members this was a blend of both recruitment and procurement processes. This was a consultative role therefore a procurement route would be taken. The selection of the postholder would be channelled through a recruitment process. The Chair had previously indicated it was important to have cross party representation. The time the advisor would need to dedicate to the Committee was being explored due to budget purposes.

It was proposed a day would be sufficient for reading documents for the Committee and providing support.

The Chair added the Independent Advisor should help steer the Committee in order to increase their effectiveness and challenges of Birmingham.

Reference was made to Cabinet Members and the peer monitoring support. However, it was highlighted a particular skill set and expertise was required to support the Audit Committee.

260

### **RESOLVED:**

That the Committee;

- i) Reviewed the attached Role Specification for the Independent Advisor.
- ii) Noted the proposed selection process.
- iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role.

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### **RISK MANAGEMENT UPDATE**

This item was deferred to the next Committee in January 2021.

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### **RESOLVED:**

That the Committee agreed to discuss the Risk Management update at the 26 January 2021 Committee.

**BIRMINGHAM AUDIT - HALF YEAR UPDATE REPORT 2020/21**

This item was deferred to the next Committee in January 2021.

**RESOLVED:**

- 262 That the Committee agreed to discuss the Risk Management update at the 26 January 2021 Committee.
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**SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

- **Minute 196 28/01/2020 – Travel Assist** - The report is due on 26 January 2021. The report on various enquires linked to Travel Assist to be shared with the Committee.
- **Minute 223 28/07/2020 – Retrospective Purchase Orders** – Completed and discharged at this Committee.
- **Minute 227 28/07/2020 - Other urgent business - Travel Assist)** - Completed and discharged at the 20 October Committee.
- **Minute 235 29/09/2020 - Financial Statement - Senior Officers Note)** – Completed and discharged with the exception of Councillor Morrall's points noted. A briefing will be arranged by officers to address these concerns.
- **Minute 246 20/10/2020 - Assurance Session – Deputy Leader's Portfolio Additional recommendation added following discussions:**

- ii) **That the committee be provided with the total cost so far for the work to make the Council GDPR compliant**

*Response provided by the Director for Digital & Customer Services;*

*“Thank you for your question. I tasked officers to come up with some comparable legislation to understand the impact of the implementation of the Data Protection act of 2018, and this has proved difficult to find something that is comparable. As Members of the Committee will know the new GDPR legislation introduced new rights for citizens in respect of their control over their personal data, it introduces the ‘accountability’ principle’ as well as wider compliance obligations on data controllers and processors, such as records of processing activity, data breach reporting, DPIA’s etc., all of which have a potential costs as well as benefits, e.g., trust in organisations handling of personal data. The Council allocated funds of £400k in 2018 to manage the transition to the new obligations required by the act.”*

Any further queries to be emailed to the Chair. Based on the response provided this action was completed and discharged.

**DATE AND TIME OF NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 26 January 2021 at 1400 hours via MS Teams (on-line).

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**OTHER URGENT BUSINESS**

The Chair notified the Committee, that Officers were producing a draft Annual Report of the Audit Committee which will be presented at the 02 Feb 2021 City Council. The draft report would be shared with Members via email for comments and amendment. Officers will clearly indicate the deadline for comments.

263      **RESOLVED:** -

That the Committee noted the draft Annual Report of the Audit Committee would be circulated to Members for comments.

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

264      **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 with the exception of the process of delegation agreed as part of the Statement of Accounts 2019/2020.

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The meeting ended at 1608 hours.

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CHAIR