

# BIRMINGHAM CITY COUNCIL

<b>AUDIT COMMITTEE</b> <b>15 SEPTEMBER 2023</b>
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**MINUTES OF A MEETING OF THE EXTRAORDINARY AUDIT COMMITTEE  
HELD ON FRIDAY, 15 SEPTEMBER 2023 AT 0915 HOURS IN COMMITTEE  
ROOM 3 & 4, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1  
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**PRESENT:-**

Councillor Fred Grindrod in the Chair;

Councillors Shabrana Hussain, Meirion Jenkins, Miranda Perks, Shafique Shah  
and Paul Tilsley

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**CHAIRS ANNOUNCEMENT**

630

The Chair informed the Committee this meeting had been arranged due to the announcement of the equal pay challenges the Council encountered. There were three key agenda items for discussion.

At this juncture, the Chair informed the Committee that due to the nature of the business, which was being discussed, the meeting may move into a private discussion and the press and public would be excluded from these discussions.

Following the guidance of the City Solicitor and Monitoring Officer, the Chair made Committee members aware the private discussion would be minuted and items that could be placed into the public that were not commercially confidence would be read in the minutes of the 27 September 2023 meeting and placed into the public domain.

The Chair noted the impact of the challenging times however, the Audit Committee will be delivered with dignity and respect to all those attending and reporting to the meeting.

Reference was made to the questions raised at the full council meeting by the Conservative Group in relation to Audit Committee and its experience and what had been shared over the period of concern. Officers have been requested to reflect and review the work of the Committee and what could have been done better and what needs to be improved going forward. It was noted, the Audit Committee would be reviewing and reflecting their ways of working.

**NOTICE OF RECORDING/WEBCAST**

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

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

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**APOLOGIES**

- 632 There were no apologies submitted.
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**DECLARATIONS OF INTEREST**

- 633 Councillor Tilsley declared his standing declaration. He was a Non-Executive Director for Birmingham Airport (Non-pecuniary).
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**EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

The Chair advised there would be a possible private discussion for four of the items on the agenda under Exempt paragraph 3 of schedule 12A of the Local Government Act 1972. These were noted as:

- Item 5 - Private minutes - Audit Committee 19 July 2023
- Item 6 - Report from External Audit
- Item 7 - Report on Equal Pay & Financial Plan
- Item 8 – Report on Oracle

The Chair would be seeking advice from the City Solicitor and Monitoring Officer throughout the meeting.

At this juncture Councillor Jenkins raised his concerns around the lack of transparency which has led to the current situation. On this basis, Councillor Jenkins opposed to the meeting being in private session. Furthermore, he added the Audit Committee had failed to protect the public however this was a result of the lack of information provided to the Committee by the administration.

The Chair noted the comments made by Councillor Jenkins and these would be considered when appropriate throughout the meeting however, the motion was carried by the Committee Members.

Upon consideration, it was:

634 **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 19 JULY 2023**

635 That the public and private minutes of the meeting, 19 July 2023 having been circulated, were agreed by the Committee as a full set.  
There were no issues raised on the private minutes.

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**REPORT FROM THE EXTERNAL AUDITOR**

636 The following report of the External Auditors was submitted:

(See document No.1 of the agenda pack)

The Key Partner, Grant Thornton, gave an overview to the powers available to the External Auditors.

Additional powers available to the External Auditors was outlined in detail within the report however, a summary of these were noted as:

- Any areas of concern – External Auditors can issue statutory recommendations which require a formal response by full Council.
- Public Interest Report can be issued (Quasi-judicial) – External Auditors would undertake further consultation.
- If the External Auditors was unhappy with the action the Council was undertaking, an Advisory Notice would be issued.
- Judicial Reviews

No progress had been made with the 2020 -21 and 2021-22 Audit since the last meeting. Issues that had been shared by the External Auditors had not been resolved thus the opinions could not be signed off.

The main issue related to Equal Pay. The External Auditors were aware the BCC officers were working on the Financial Model. The effectiveness of the modelling was being looked at by the Auditors. This would then allow the assumptions to be made which in turn would provide assurances that the financial figures are accurate within the accounts.

The External Auditor emphasised this work was urgent and the 2020-21 and 2021-22 accounts should be signed off by the 30 November 2023. A financial position was required on the old accounts to progress further. Other areas of issues within the 2020/21 were pointed out. It was crucial to close these accounts as soon as possible.

2022-23 Accounts – The Council was not yet able to provide an outturn position or set of financial statements for the 2022-23 accounts. The External Auditor was aware BCC Officers were working on both these areas however, there was no clear timescale for completion of this work. These issues arose due to the Oracle Implementation which did not work for the Council.

Areas of concern were noted as:

- i) Original implementation, adaptation of the Oracle system – These adaptations to the system had not worked which resulted in difficulties in financial reporting.
- ii) IT Security System on Oracle was not switched on at the start of the programme/ process. The External Auditors could not confirm that the Council had the IT security control in place as they had no insight to what had happened within core IT security systems as there was no record. This was being looked into with Oracle and the Council as this has significant implications to the audit.
- iii) Financial systems had not operated as planned. Details around the integrated systems was shared. It was noted, this was not in place at the start or had not operated through the year therefore this had significant implications to the Councils main ledger.
- iv) Cash transactions – BCC Officers had to undertake manual work to allocate the cash to the right place. It was noted 30 BCC officers had been working on this area and it was believed to be reasonably accurate. The External Auditors recognised this was tremendous task to undertake.
- v) Other areas highlighted were around;
  - accounts receivables and payables,
  - payroll (no issues raised to the External Auditors by the Council) and;
  - journals – This was a powerful tool within the general ledger and allows the movement of transactions if in error to the correct location. However, there are risks attached to this as financial reporting can be manipulated or used for fraud. Lack of control and authorisation on the journals provides difficulty in assurances on the control.

The External Auditor did not have the key components to undertake the audit i.e. he did not have details of the IT security System; security and operation of journals; and security of posting of the cash. Therefore, this was a different type of audit.

The External Auditors would be looking at the key areas in phases. These were noted as; IT Security, journals, control of the accounts reconciliation in order to determine if assurance can be placed on the control.

- If assurances cannot be obtained, then the External Audits will recommend to the Audit Committee to stop the audit and qualify the accounts as the level of testing for External Auditors and work for officers would be extraordinary and this would cause delays.
- If assurance can be provided via significant testing, then this would require further work by the Auditors.
- Officers had been focussed on the safe and complaint phase of Oracle on resolving the Job Evaluation process. No progress was being made on these accounts.

The External Auditor provided no date for when the 2022/23 accounts would be signed off.

### **Equal Pay**

A special review on Equal Pay was taking place. The External Auditor was concerned that the Council had not chosen a job evaluation option. It was noted Council Business Management Committee were presented with option 2 on the basis the addendum would be signed by the Trade Unions. The Council was not making progress to closing this liability which was a significant concern for financial future.

### **Financial Sustainability**

There was not sufficient revenue to meet the Equal Pay liability. The Government may have to provide legislation to allow capitalisation of revenue. Significant asset sales may also have to take place to raise the funding, or additional borrowing.

There was significant concerns round affordability of additional borrowing. This was a critical conversation for the Council to have. On this basis, the financial position for 2022-23 is not known and this would affect 2023-24 accounts.

### **Oracle**

The External Auditor recognised BCC Officers had been focused on the Safe and Complaint Phase. The Audit Committee had to ensure this phase was completed. It is important to ensure the vanilla' version of Oracle was in place however, the capability and capacity was currently not available. This was under review and concerns have been raised around programme management, options appraisal etc.

The Committee were advised by the External Auditor to focus on these following 3 areas; Financial Sustainability; Equal Pay and Oracle.

Both Key Partners (External Auditors – Jon Robert and Mark Stocks) would be issuing statutory recommendations relating to the issues and there would be a period of 10 days for the council to respond to.

The Chair recognised the advice provided by the External Audit and the three areas suggested; Financial Sustainability; Equal Pay and Oracle. These would be on a standing items on the Audit Committees agendas. This was agreed by Members of the Committee.

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

Members raised questions and made the following comments;

- what was the normal timescale for a difficult set of accounts to be signed off;
- Delay of accounts (impact of the pandemic) – if earlier sets of accounts were closed, would the Council understand this position quicker?
- 2020-21, 2021–2022, were not being closed, however, if they were closed how does information found out later i.e. March 2023, have an impact on these previous years?
- How assured was the External Auditors that the Council Equal Pay model was correct?
- An estimate of £760 million pounds for Equal Pay Liability had been indicated, however, until the job evaluation was agreed, the liability would grow by £14 million pounds a month. The Job Evaluation was not likely to be in place until 01 April 2025 (approximately 18 months). This would take the liability to over £1billion which was very concerning – this would mean selling assets, reduce the workforce, increase council tax etc.
- A motion was passed in full council around access to information for Audit Committee and access to information should be readily available to the members.
- IT Security – The access control was not in place therefore any changes made on the system, was not tracked or logged which was concerning.
- The accounts would be reviewed for the last 3 years however, equal pay claims date back to 2017. It was questioned if 6 years of accounts should be looked at.
- Cabinet Members were informed of the equal liability in February 2023 via the HR Director which indicated approximately £300-600 million. The budget was signed off in February with a risk register indicating there was no equal pay risk at the time. Questions arose to the External Auditor around the signoff of the budget at Council despite the apparent awareness of the situation.
- The job evaluation scheme has not been agreed by the trade unions and the liability increases. Questions were raised around if there was any other methodology available to mitigate the liability.
- Questions were asked to the External Auditors if they have had sight of the Cabinet Report and legal advice around this area in 2017 and subsequent years.

## **Audit Committee – 15 September 2023**

- Oracle – original budget was £20 million and the estimate was now around £100 million. Oracle would need to be reimplemented and queries were raised if this figure was realistic?
- £383 million pounds earmarked reserves and unmarked £230 million pounds, Cabinet had approved £40 million pounds in July 2023, to meet the Oracle implementation (from reserves).
- In relation to £760 million pounds, how much savings would need to be found within each year?
- Finance & Resource O&S Committee had tried to get hold of an Asset register which was currently difficult to get hold of. What would be the position especially if the Job Evaluation had not been agreed.
- If the accounts were qualified, what would be the impact on the Council?

In response to members question the External Auditors made the following points:

- Normal set of circumstances, accounts can be signed off within 5 months of receiving them. This set of accounts will take 12 – 18 months.
- The previous accounts were still open due to equal pay to which assurance around equal liability was asked for by officers. In March 2023, the auditors were informed there may be a difference in the equal pay liability. This was the core reason for the accounts remaining open.
- If 2020-21, 2021-2022 accounts were closed, there would be comparative listed, and advice would be given to undertake a prior period adjustment to reflect the true liabilities of the period. Accruals accounting applies to Birmingham (as per CIPFA Code). Assumptions and estimations would also take place.
- The External Auditor had confidence in BCC officers, however the model had to been submitted to audit. Only the 2019-20 model was available and the rest that covered the remainder of the liability period was to be shared. This area could not be answered by the auditor at present.
- The External Auditor agreed with comments made around the impact of the increase Equal Pay liability until the Job Evaluation scheme was in place. This would have an impact on the services the council provided to is residents.
- The period of open accounts would be looked at (2021) and restate the comparative, income expenditure for 2019-2020 and restate the balance sheet for March 2020 and March 2019 statements.
- In relation to the sign off of the accounts and Cabinet being aware of the equal pay liability, the External Auditor was not in a position to give a view at present. This would be looked into however, the focus was on the job evaluation option.
- The Council had discounted all the options except option 2 in the Job Evaluation. It was the Council's choice of which option it takes going forward (option 2 with the view of Trade Unions in support at some stage). Council Business Management Committee (CBMC) would now need to consider the position and make a decision on the way forward

- The job evaluation process had to be done as soon as possible. Arrangements should be in place to stop Task and finish immediately. Member had a significant role to support officers to finish this.
- The Auditors did not have sight of the Cabinet Report and legal advice given in 2017 and subsequent years. The value for money work would look at this information. The Terms of Reference has been agreed with the Auditor and work would be taking place.
- The costs associated with the re-implementation of Oracle could not be confirmed. Advice would be provided by the additional auditing team to assure the safe and compliant phase was actioned before re-implementation could happen. Budgets would be looked at during these phases.
- The figures outlined for Oracle were based on the drafts accounts for March 2022 hence the financial outturn for 2022-23 was important.
- Details around how much savings to place aside was not available. The position on the 2022-23 outturn was not available, job evaluation process was not identified, no fixed position on 2021/22 accounts – details around the process was shared.
- What could happen - If the Council wishes to remain in control, decisions had to be made. An advisory Notice would be issued by the auditor, followed by a judicial review. Government would intervene. This was a serious point in the council's future.
- If the accounts were qualified and borrowing happened through PWBLB this would not have a significant impact, if there was covenance on other loans this would impact the relationship with the bank. It takes 3-4 years to remove the qualification of the accounts.

The Section 151 officer issued a point of clarification. It was noted in relation to Equal Pay, the £650 - £760 million potential estimated liability was up to 31 March 2025. An increase would occur on any delay that would happen by £5-£14 million on top of this. The additional liability would occur from April 2025.

In summing up, the Chair advised a report from the Section 151 officer and City Solicitor & Monitoring officer would provide a response to this report at the next Audit Committee.

Upon consideration, it was:

637

**RESOLVED:-**

The Audit Committee noted the report of the External Auditors.

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**REPORT ON EQUAL PAY & FINANCIAL PLAN**

The following report of the Chief Executive was submitted:-

(See document No.2 of the agenda pack)

The Chief Executive thanked the Audit Committee for rescheduling this meeting as she had to meet with the Sectary of State with Leader, Deputy Leader to discuss matters.

A detailed summary was provided by the Chief Executive on three areas;

- (i) Why a Section 114 Notice had been issued; the main trigger from External Auditors.
- (ii) What the section 114 notice means - the legislative framework the Council were operating with and
- (iii) Response to the current situation

All staff and members had been informed what the Section 114 Notice involved including the spending controls.

A meeting of full council would take place on 25 September 2023, the Section 151 Officer would present the case with the Chief Executive to provide a response of how to address the challenges of the Section 114 Notice. In addition, a Financial Recovery Plan would be shared with full council.

An overview of the Financial Recovery Plan and what this would consist of was shared with the Committee. It was important to understand the value of the Assets the Council had. Decisions around the disposal of assets had to have a strategic Overview as selling some assets would not be the correct decision. Clear approach had to be undertaken.

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

Members raised questions and made the following comments;

- Assurance was sought around Task and Finish methodology and if no employee was working under this at present. How confident was the Chief Executive that the direction of ceasing Task and Finish had been acted upon?
- Members sought assurances that the job evaluation would be completed within the timeframe the External Auditors had indicated.
- Was option 2 shared with CBMC with the confidence this would be agreed? Members were concerned a decision had not been agreed by the trade unions.
- Members requested a response/outline as to why CBMC was taking the decisions and not Cabinet. The City Solicitor and Monitoring Officer explained the functions and responsibility regulations. CBMC was a delegated subcommittee of Council, and this was set out in the Constitution. The Chair requested for a review of the decisions that went into CBMC and this would be discussed outside of the meeting with the City Solicitor.

- Comparing certain job roles would mean services would be less efficient. Comparing incomparable jobs would have further impact.
- Contracting and outsourcing the bin service would enable less issues for the Council.
- Members questioned if there was a hidden agenda from the Trade unions i.e. disputes between the unions and therefore not coming to an agreement.
- How often were meetings taking place with the Trade Unions to ensure matters are being resolved and coming to an agreement?
- Was there an idea of Service areas where efficiencies could be made?
- Internal Audit June 2023 indicated there was a lack of finance capacity i.e. has it the capacity to look at savings?
- Questions were raised if option 3 of the Job Evaluation was considered by the Leader and officers?
- CBMC have to make the decision on the Job Evaluation – would this be in place before the 25 September City Council meeting – what is the deadline?

In response to members question the Chief Executive made the following points:

- Task and Finish – informed the actions that had been undertaken by Craig Cooper and Bill O'Shaughnessy to stem and stop task and finish. Assurances were provided that actions by management were being taken to ensure this was stopped. Work with Internal Audit was taking place.
- In response from Management (Craig Cooper), the Chief Executive was 100% confident actions were taken around Task and Finish and addressed through the department.
- CBMC had been presented with the Job Evaluation. At the last CBMC, option 2 of the recommendations had been shared. This would be agreed on the basis the trade unions would agree the addendum. This would allow the implementation of the job evaluation scheme.
- There was confidence option 2 would occur. The deadline with the Trade Unions response was Monday 11 September however the addendum had not been signed. The CBMC would need to reconvene and a discussion on the next steps must be discussed.
- The job description was important and part of the job evaluation methodology - Equality amongst the staff.
- There were TUPE liabilities with individuals had to be factored as well as other implications of contracting the bin service elsewhere.
- The Chief Executive was not aware of any disputes between the 3 trade unions however, BCC continue to work with them all. An additional Trade Union Consultant had been in place to assist with the current engagement.
- Reassurances were provided as 6 months of engagement had taken place already. Daily conversations were taking place when approaching CBMC meetings.

- 2 of the 3 Trade Unions had indicated that they would not sign the addendum. The Leader would be having another conversation with the unions.
- CBMC would make the decisions on the next steps. The Cabinet report indicates that if there is no decision then the Council reserves the right to make the best decision.
- The Section 114 Notice would stay in place until the areas had been addressed. 25 September Council meeting would have the response from the Chief Executive to the section 114 Notice and the activities and actions that would take place. There will not be an emergency budget or a full recovery plan at that meeting.
- CLT were resolute around their responsibilities on the Section 114 Notice. It was key to maintain the level of service and saving were undertaken correctly. 2 meetings per week were taking place to reach savings targets.
- Option 3 was deemed as unlawful. This was developed as an option to be discussed. Discussions around the various options took place.
- The Leader was keen to place a date for CBMC to look at the Job Evaluation as soon as possible.

There were points during this agenda item discussion where the City Solicitor and Monitoring officer advised certain questions may need to be raised and discussed during a private discussion.

The Section 151 Officer informed the Committee additional capacity would be brought in to assist with the closure of the accounts. Currently there were 20 people undertaking the backlog of the cash allocations. Work would be commissioned to look at the assets/ companies – strategic overview. In addition, a new Deputy 151 Officer would work with Directorate to build the savings plan.

Upon consideration, it was:

638

**RESOLVED:-**

The Audit Committee;

- (i) Noted the report on Equal Pay & Financial Plan; and
- (ii) A written response to be provided by the City Solicitor & Monitoring Officer as to why Council Business Management Committee were making certain decisions rather than Cabinet.

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At this juncture, the Key Partner, External Auditor had to leave the meeting. Other Members of the External Audit Team remained in the room.

**REPORT ON ORACLE**

The following report of the Chief Executive was submitted:-

(See document No.3 of the agenda pack)

The Chief Executive noted the External Auditor had already provided an assessment of Oracle. The enhanced Audit would be helpful however there were a number of issues that had to be addressed.

A short statement was read by the Chief Executive on Oracle.

The Chief Executive recognised the immense work and effort undertaken by staff. She thanked staff for being agile and assistance to the response of working through the issues.

The Chair noted there were ongoing reviews taking place and requested these were logged and information shared with the Committee.

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

Members raised questions and made the following comments;

- How was the Chief Executive assured the project was being delivered on time and within budget from the start of the implementation. The City Solicitor advised this would need to be discussed in a private session.
- IT Control - Tracking of changes was not logged therefore this was very concerning.
- Oracle had a fixed price programme of implementation. Queries were raised around the exchange and the advice from the suppliers as this may have been challenged when it came to bespoke work. The Chair suggested this question to be discussed in private.
- Concerns were raised that the Audit Committee had been mis-led as the update to date, accurate and honest information had not been shared.
- Was there a view of Oracle would be stable and when would this provide accurate information?

In response to members question the Chief Executive made the following points:

- Reassurance was given the information shared since the emergency situation had been transparent and honest.
- The focus for BCC was to ensure the Oracle system was stable. Factors such as the enhanced audit would be used to work through, the issues from Oracle. A date of completion could not be determined at present however, reassurances were provided that this work would take place.

## **Audit Committee – 15 September 2023**

- The Chief Executive was confident the Safe and Complaint phase would conclude by end of October 2023.

The Chair informed the members the private minute would be reviewed and relevant sections would be placed back into the public domain. There were a number of Governance reviews taking place and a regular log would need to be shared with the Committee.

On the 27 September 2023, the Audit Committee start earlier to include a session on the role of the Audit Committee and shaping the way forward. Audit Committee may in future make reports to City Council.

At 1120 hours, the Committee moved to a private session.

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**(Note: Minute 640 is in private)**

### **RE-ADMITTANCE OF THE PUBLIC**

641 At 1147 hours, following discussions on item 8, the report on Oracle, the Committee moved back into the public meeting.

**(The Committee moved back to Item 8 on the agenda)**

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### **REPORT ON ORACLE**

The private minute would be reviewed and relevant sections would be placed back into the public domain.

Upon consideration, it was:

642 **RESOLVED:-**

The Audit Committee;

- (i) Noted the report on Oracle; and
- (ii) A list of ongoing reviews to be logged and shared with the Committee.

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643 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Wednesday, 27 September 2023 at 1400 hours in Committee Room 3 & 4, Council House.

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

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**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.

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The meeting ended at 1148 hours.

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CHAIR