

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
31 JANUARY 2024

**MINUTES OF A MEETING OF AUDIT COMMITTEE HELD ON WEDNESDAY,
31 JANUARY 2024 AT 1400 HOURS IN COMMITTEE ROOM 3 & 4,
COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

PRESENT:-

Councillor Fred Grindrod in the Chair;

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

ALSO PRESENT:-

Deborah Cadman, Chief Executive
John Coughlan, Commissioner
Craig Cooper, Strategic Director City Operations
Anthony Farmer, Head of Professional Standards
Richard Fitzjohn, Equal Pay Programme Lead
Fiona Greenway, Interim Finance Director & Section 151 Officer
Dr Robert Milford, Managing Director, Milford Research & Consultancy Limited
Craig Price, Principal Group Auditor
Marie Rosenthal, Interim City Solicitor & Monitoring Officer
Mohammed Sajid, Assistant Director Financial Strategy
Mark Stocks, External Auditor, Grant Thornton
Philip Macpherson, Oracle Programme Lead
Mandeep Marwaha, Committee Services

NOTICE OF RECORDING/WEBCAST

703 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.

APOLOGIES

704 Apologies were submitted on behalf of Councillors Robert Alden and Shafique Shah for their inability to attend the meeting.

DECLARATIONS OF INTEREST

705 Councillor Tilsley declared his standing declaration. He was a Non-Executive Director for Birmingham Airport (Non-pecuniary).

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair notified the Committee he had been made aware item 8 - Update on Statutory Recommendations had exempt paper (Exempt paragraph 5 from Schedule 12A of the Local Government Act 1972 - Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings). Therefore, he proposed for the item to be moved to the end of the agenda to move into a private session.

At this juncture, Councillor Jenkins opposed the movement of this item and suggested the agenda remained in the order as published unless there was a good reason to do so.

The Interim City Solicitor and Monitoring advised the Chair, the Director of City Operations was joining the meeting in relation to the exempt item. In addition, the Chief Executive would be joining the meeting later to participate in these discussions.

The advice was noted by the Chair, however, he highlighted given the gravity of the items on the agenda, he would have preferred the Chief Executive to be present for all items. The Chair noted the Director for City Operations had now joined the meeting therefore, he proposed for the meeting to continue in the order set out in the agenda.

The interim City Solicitor and Monitoring Officer acknowledged the Director's attendance therefore, he was able to discuss the exempt item followed by moving back to the public session for any further discussions.

At this juncture, the Chair withdrew his request to move item 8 - Update on Statutory Recommendations to the end of the agenda.

This was agreed by the Committee.

Upon consideration, it was:

706

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.

MINUTES – AUDIT COMMITTEE 29 NOVEMBER 2023

707 The Chair highlighted the minutes of the meeting were well recorded and thanked officers for their work on these.

The minutes of the meeting held on 29 November 2023, having been previously circulated, were confirmed and signed by the Chair.

COMMISSIONER’S REVIEW AND COMMENTS ON THE AGENDA

The following document from the Commissioner was submitted:

(See document No.1 of the agenda pack)

The Chair highlighted there were two separate notes made by the Commissioners on the agenda. He was grateful for one of the Commissioners being in attendance and invited the Commissioner to address the comments made.

The following comments were made by the Commissioner:

- Public meetings agendas are reviewed by the Commissioners.
- Items 8, 9, 10, 11 and 12 on the agenda no comments were made from Commissioners.
- Item 7 – Internal Audit Plan Update - As set out in the Directions issued October 5, 2023, Commissioners expect to see a service review of the provision and operation of BCC’s internal audit function over the next 6 months.
- Item 13 – Comments provided by Myron Hrycyk Commissioner.

(For the purpose of the minutes and record, the comments made on item 13 – on Oracle were as follows):

“This report delivers a number of very useful observations and recommendations that should improve the success of the current “Safe and Compliant/Stabilisation”, “Income Management System Replacement” and the “Re-implementation of Oracle” programme workstreams.

Many of the recommendations have been identified in other reviews of the Oracle programme and the Commissioners broadly support those in this report.

Commissioners would like to see the management responses to the recommendations to ensure that BCC have considered their priorities, how they will approach resolving them, resources needed and timescales.

We expect that BCC’s Oracle Programme Leadership (the three workstreams) will review these proposals and seek to adopt, if they are not already doing so, the programme focussed recommendations. The segregation of duties observations is of particular concern and Commissioners expect the SRO, Programme Director and Team to address these as a priority.

BCC has stated their commitment to adopt Oracle best practice processes and configuration for the re-implementation. Commissioners believe that the observations and recommendations in this report re-enforce these principles.

Commissioners suggest that a senior Grant Thornton person e.g. Mark Stocks, has an invitation, to join, if he wishes, the high level Oracle Programme board at appropriate points”.

The Chair noted the comments made by the Commissioners and valued more engagement with the Commissioners where appropriate.

No other comments were made by Members of the Committee.

Upon consideration, it was:

708

RESOLVED:-

The Audit Committee noted the comments made by the Commissioner on the 31 January 2024 agenda.

INTERNAL AUDIT PLAN UPDATE

The following document from the Assistant Director for Audit and Risk Management was submitted:

(See document No.2 of the agenda pack)

The Principal Group Auditor informed members the report provided an update on Internal Audit activity for November and December 2023. A summary of key findings arising from the work completed was highlighted within the report. A summary of progress against the 2023/24 Internal Audit plan, an update on non-assurance activity including progress in developing a central audit recommendation tracker and Internal Audit report repository was provided.

The key points made by the Principal Group Auditor:

Five reports had been assigned a level 3 assurance rating in the Audit Report issued in November/ December 2023. This indicated there was significant control issues which could lead to the management of risk or objectives being compromised. A summary of each audit report and next steps were set out in the appendix.

At the end of December 2023 56% of the 2023/24 audit plan had been completed to draft report stage, which was slightly below the target of 65%.

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Internal Audits target for the year was to complete 95% of the plan to draft report stage.

There had been requests to defer jobs from the audit 2023/24 audit plan. These requests were being discussed with the Directorates only jobs that would not have an impact on the end of year opinion would be deferred. Any deferred high-risk jobs would be incorporated into the Audit Plan for next year.

The development of the Centralised Recommendation Tracker was near completion and a pilot was taking place in Digital Technology Services. Once the pilot was completed, the tracker would be rolled out on a phased basis. Communication campaigns would take place to raise awareness for managers.

A security model for the Centralised Audit Report Repository was being tested. This would be used as a knowledge repository for the Audit Committee and access to wider documents, guidance, and training materials made available

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

Members raised questions and made the following comments;

- Concerns were raised around the deferring audits. It was noted a number of departments were under pressure due to the current budget process however, this should not be used as an excuse to the Internal Audit Team.
- It was suggested any deferrals of audits should be reprioritised for the next financial year.
- The progress and updates made on the report was noted by Members, however, concerns remained on identifying the high risks and what actions have to be taken and require ongoing oversight. The report on Fleet Services External Review was referred to as an example. It was suggested timescales against next steps was required. There was a need to expand on the details to understand the risks and actions. Questions were raised if 'medium' risk could turn into a 'high' risk. It was acknowledged that access to the reports via the central reports database would provide additional information.
- Members sought for an example of when an audit review being deferred would not affect the Audit Opinion. Further queries around this area was raised.
- Reference was made to the 2023/24 audit plan and the reasons to why only 56% had been completed to draft report stage.
- Further questions were raised around the vacancy and resources within the Internal Audit Team and if the vacancy was filled, would this enable the work to be completed. The Chair acknowledged the Internal Audit Department for Birmingham was under resourced to deliver its work and queried if a full complement of staff including the vacancy would be sufficient for the Internal Audit Team to deliver the work. Further detailed questions and discussions took place around the understanding of risk and risk management in the council up until the present moment. There was a significant amount of issues that were live.
- The Chair sought clarity on who was responsible to deliver a 'Risk Based Culture' within the organisation.

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- Reference was made to previous 'cultural change' discussions, i.e. Home to School Transport issues, Weightman's report and cultural shifts. It was queried if this had happened and if not, whose responsibility was this? Accountability of the change was also queried.
- Councillor Jenkins indicated the Cabinet (Elected members) would be responsible for the failures within the organisation.
- Reference was made to the Oracle Accounts Payable - One Time Payments (OTPs) & Request for Payments (RFPs) (low risk level 2) Audit. It was noted in the External Auditors report, there were 70,000 transaction errors and poor control environment. Questions were raised on duplicate one-off payments.
- Further concerns of resource within Internal Audit Team were made by the Committee. Members raised concerns on the wellbeing of staff whilst undertaking their jobs as this was important not to lose sight of.
- A full understanding of the Councils proposed budget and savings proposals was not known. Members want to see a risk associated, financial risk and business continuity risk of each savings proposals. Further queries on this matter was raised by the Chair.
- Concerns was raised on the saving in 2019/20 budget, where there was a cut on the Oracle Programme (£1.7 million pounds). There was a removal of 40 headcount in total. It was questioned had the cut not happened would this have made a difference to the delivery of a successful implementation of the programme. A similar cut was indicated for this year's budget and could this potentially have a huge impact in the future. Assurances were sought on the management of Business Continuity and Financial Resilience had been undertaken for every line in the budget.

In response to members questions, the Principal Group Auditor, the Interim Finance Director (S151 Officer), Interim City Solicitor and Monitoring Officer and the Managing Director, Milford Research & Consultancy Limited made the following points:

- Deferred Audits – Directorates would be supported with challenges that they face. This would be a priority and placed into the next financial year. However, if there was jobs that cannot be deferred and required action, this would be raised the relevant managers, and escalated to the Audit Committee.
- The suggestion made on expanding on risks linked to the audit reports within the next update to the Committee.
- Work was taking place with Managing Director, Milford Research & Consultancy Limited on this report and the information required for the Committee.
- Officers do not have an example of an audit review that could be deferred and would not affect the Audit Opinion to hand however, this would be considered in areas where there was no impact on the overall assessment of the control within a particular area. Work taken place for the rest of the year would be taken account of and findings from previous audit works. Further details around this query was provided.
- Members were informed work was taking place with Internal Audit via Milford Research & Consultancy Limited. Internal Audit would be looking into other

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areas of the business to obtain information to rely upon rather than just acquiring assurances themselves. Internal Audit was now working towards a risk-based focus. Next year's Audit Plan was now being looked at as well as appropriate resources within the team.

- There were several factors as to why only 56% of the 2023/24 Audit Plan had been completed to a draft report stage. These were noted as: i) work from the previous financial year; ii) delays in starting work on the current year, iii) vacancy within the team therefore, reduced resources to complete the plan.
- It was highlighted the Council faced many challenges and having the vacancy filled would assist the delivery. However, there had been difficulties to appoint to this post as specialist skills were required for this post. In addition, the Interim S151 officer highlighted the difficulty to recruit therefore, some apprentice roles were being explored. The Internal Audit Plan was currently not risk based approach therefore, a six monthly rolling plan was being looked into.
- The capacity and number of Audit days available should be sufficient to deliver the Internal Audit Plan. The Risk Assessment was key in driving the work. The Managing Director, Milford Research & Consultancy Limited and Head of Professional Standards was assisting shaping this work. Filling the one vacancy would not be sufficient to provide 100% delivery of the Internal Audit Plan. It was recognised by the Centre of Governance Review, External Auditors and self-assessment that there was further work to be done as the Audit Plan did not pick up some of the risks.
- A risk based approached mapping, managing and mitigating against the risks in the Audit Plan would drive this. Extra capacity around risk was now in place.
- There was an acknowledgement by the S151 Officer that the Audit Plan did not have the risks that it should have done. Work was taking place with a different Audit Plan working with the Audit Committee to ensure the right plan was in place to cover the right risks for the organisation.
- The Interim S151 officer highlighted there should not be a deferral for Internal Audit Reports however, if there was a need for the deferral, this should be reported to the S151 officer. If there was a further problem, this would then be escalated to the Audit Committee. Additional details around an Audit Plan was provided by the Managing Director, Milford Research & Consultancy Limited.
- A methodology around the Audit Plan will be shared with the Audit Committee in February 2024.
- The Committee were informed, the cultural shift was the responsibility of both officers and elected members, across the organisation. This had to be owned by 'all' across the organisation.
- The S151 officer agreed to share a response to the Committee on previous 'cultural change' discussions and this had happened or not. The response to include whose responsibility this was and the accountability for the change. It was noted, the accountability ultimately led up to Head of Paid Services and Leader of the organisation.
- Oracle Accounts Payable - One Time Payments (OTPs) & Request for Payments (RFPs) (low risk level 2) Audit – Details of the workflow, and the payments were shared with members of the Committee. As there is no invoice one-time payments are a high-risk area that have the potential to be subject to

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fraud. Testing included detailed a data analysis exercise of payments since The implementation of Oracle. A full management response to the external auditors report would be shared at the next Committee meeting.

- The Head of Practice Management had been going through each of the Delivery Plans with the Section 151 officer and the risks associated. The information would be shared with all the Councillors (elected members). The proposals had been through Task and Finish Budget Scrutiny Committee. In addition, the report was shared with Finance & Resources Overview & Scrutiny with recommendations for Cabinet to consider and respond to in order to propose a budget to full council.
- The S151 Officer would undertake a S25 as part of the budget setting for Council in which assurances would be available. The Commissioners will be looking at the S25 in detail. External support and legal advice will be in place for this process. Details on a S25 was shared with the Committee. Over 150 delivery plans were being developed to the savings proposals which would be accessible to the public. Sessions were taking place with Cabinet Member and Finance Business Partners to the delivery plans.
- The S151 officer will challenge anything raised to her that had not been brought to her attention.

Upon consideration it was;

709

RESOLVED:-

That the Audit Committee;

- (i) Noted the Internal Audit update for January 2024; and
- (ii) Agreed for the S151 officer to report back to a future meeting of the Committee on the work that had been done to date and was planned to develop a risk based culture across the organisation.

UPDATE ON STATUTORY RECOMMENDATIONS

710

The following document from the Interim Director of Finance, Section 151 Officer was submitted:

(See document No.3 of the agenda pack)

The Interim Finance Director Section 151 Officer made introductory comments. Members were informed this was the first update to the Audit Committee since the City Council meeting. The report provided an update on progress against the action plan that was agreed at Cabinet in response to the twelve statutory recommendations contained within the External Auditors report, as of December 2023.

Point 1.3 of the report was read out by the Interim Finance Director, Section 151 Officer.

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“Delivery against these recommendations is crucial for financial sustainability and effective governance for Birmingham City Council. The issues raised within the External Auditor’s report are significant enough to have caused them to use their statutory powers. Addressing these recommendations will re-affirm a basis for sound financial management and effective governance within the Council and provide a platform from which we can address the broader challenges facing the Council and City as a whole.”

Appendix 1 of the report was the update Consolidated Action Plan in response to the External Audit report dated Friday 29th September 2023.

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

Members raised questions and made the following comments;

- Issues highlighted on page 64 (Asset Disposals) and large assets had to be disposed of were referred to. Assurances were sought from officers that there were plans to look ahead of this. Furthermore, on page 67 of the report, (status of the sign off for 2020/21 and 2021/22 accounts), to be completed in January 2024. The External Auditors had indicated this had not occurred. This raised concerns as the previous External Auditor was no longer with Grant Thornton.
- Only issues for 2020/21 and 2021/22 accounts were around value sum of the assets.
- Concerns were raised at the slow pace of the actions against the recommendation.
- Queries were raised around the appointment of the Job Evaluation Team.
- Recommendation 4 – Independent Review of obtaining legal advice – Members sought clarity if this was taking place. Several questions on this matter were raised by members.
- The Chair sought confirmation from the External Auditors on this report and if this was satisfactory progress against the recommendations.

In response to Members questions, the Interim Finance Director (S151 Officer), Interim City Solicitor and Monitoring Officer, the Equal Pay Programme Lead and the External Auditor made the following points:

- Recommendation 9 – Asset Disposal Plan – Members were informed Cabinet had agreed to set up a Cabinet Committee for Property which would meet monthly to oversee a programme of asset disposal. This was managed by the Director for Places, Prosperity, and Sustainability. The Committee consists of Cabinet Members with Opposition members in attendance as observers.
- Linkage to Equal Pay calculation – Open discussions were taking place on 2021/22 on outstanding queries with External Auditors.
- Members were informed the Equal Pay Team were in place and benchmarking would be taking place in the programme until May 2024. The team were on target for spring 2025.
- The last meeting of Cabinet Committee Property was cancelled due to no business going to this however, there was several auction sales taking place. Details on the revenue was discussed.

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- Recommendation 3 – The Interim City Solicitor and Monitoring Officer advised these discussion must take place in exempt session as the Council was in live litigation in the Employment Tribunal.
- The Interim City Solicitor and Monitoring Officer was seeking clarification with the External Auditors on the Recommendation relating to how legal advice was commissioned was suggested a Monitoring Officer Protocol should be in place. An Independent person would be appointed to undertake the review in February 2024. A fact gathering exercise would take place on what advice had been provided, had the advice been followed and was this safeguarded.
- The External Auditors highlighted they were working closely to the job evaluation process however, as this unfolded, various versions of the Job Evaluation was forwarded to the External Auditors on how legal advice was commissioned and safeguarded. This was the responsibility of the City Solicitor and Monitoring officer in post however, the External Auditors were made aware the advice provided was not being followed. There was a point where there was the option to stop the process and for the External Auditors to undertake the process themselves however, due to the urgency, the statutory recommendations was issued.
- Details on the 2022/23 accounts and impact on future accounts was shared by the S151 officer. Details around this would be set out in the S25 document for the budget setting which would be shared with Cabinet and Finance & Resources O&S Committee in March 2024.
- The External Auditors were content with the progress made against the recommendations and there were no additional comments made.

At this juncture, the Chair announced the meeting would move into the private session. He requested for the press and public to leave the room. Only Councillors, City Council employees, External Auditors and Commissioners were able to remain in the private session.

At 1516 hours, the Committee moved to a private session.

(Note: Minute 711 is in private - document No.4 of the agenda pack)

RE-ADMITTANCE OF THE PUBLIC

712 At 1605 hours, following discussions on item 8, Update on Statutory Recommendations, the Committee moved back into the public meeting.

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

UPDATE ON STATUTORY RECOMMENDATIONS

Upon consideration it was;

713 **RESOLVED:-**

That the Audit Committee noted the current progress against the agreed action plan.

UPDATE ON THE RISK MANAGEMENT PROGRAMME

The following document from the Head of Professional Standards was submitted:

(See document No.5 of the agenda pack)

The Head of Professional Standards gave a summary of proposed improvements which covered over three themes. These were highlighted as:

- Theme 1 - Visibility & Articulation
- Theme 2 - Process & Procedure
- Theme 3 - Recording & Reporting

It was highlighted as part of the recording and reporting theme, a formal Risk Management section would be included in decision-making reports. A Knowledge Repository will be created for all associated risk management data, reports, and action plans. Specific training in relation to the new systems, consultation and engagement on the approach taken, and future reports required by Committee Members would be provided.

Consultation and engagement on future reports required by the Corporate Leadership Team and the nature of information required would facilitate decision-making. This would provide assurance over the way risks was managed. In conjunction with Internal Audit colleagues, the inclusion of bi-annual reports to the Committee on the effectiveness of the Risk Management function itself would be available.

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

Members raised questions and made the following comments;

- Reference was made the Centre of Governance and Scrutiny report which highlighted the issues on the Annual Governance Statement. The Chair reminded the Committee, prior to this meeting members had received bitesize training on this area as part of the development on this Committee. The Chair sought steer as to how the risk management remained active in the Annual Governance Statement and practicing risk management culture.
- The Chair requested for the report author for Centre of Governance and Scrutiny Report Author to be invited to the next meeting of the Audit Committee. Members were notified this will be itemised at the next meeting agenda and arrangement would be made for the author to attend.
- A question was raised as to how the risk management approach been utilised to develop the budget proposals for the Council.
- It was queried if the information on unintended consequences would be shared with members before the budget proposals? Was there confidence that those who were working on the branches of risk management, business continuity and financial resilience had an understanding on this?

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In response to Members questions, the Head of Professional Standards, Interim City Solicitor and Monitoring Officer made the following points:

- The Corporate Governance Group, which was an officer, led group would prepare the Annual Governance Statement. The Group would have Risk Management embedded throughout it. The Head of Professional Standards was be involved in the group to ensure all the independencies was working together.
- Challenge sessions were taking place on the savings plans. A robust process had been taking place around the risk management plans.
- Information on unintended consequences will be included in the budget proposals.
- The risk maturity journey was in its very early stages as a final framework had not been established.
- The Chief Executive gave assurances to the Committee that the budget process had been very robust. The Budget proposals had been shared via the Scrutiny process where political debate had taken place. This was in addition to the officer Assurance Sessions. Another piece of work on continued risks will also be monitored.

Upon consideration it was;

714 **RESOLVED:-**

That the Audit Committee:

- (i) Supported the risk management rebuild programme outlined within the update and made comments on additional assurances that might be required to satisfy Committee Members with regard to the way the City Council considers, responds to, and manages risk; and
- (ii) Progress on delivery of the Stabilisation Plan required by the Governance Review carried out by the Centre for Governance and Scrutiny be reported at the next meeting and the author Ed Hammond be invited.

FINANCE UPDATE – JANUARY 2024

The following document from the Interim Finance Director, Section 151 Officer was submitted:

(See document No.6 of the agenda pack)

The Interim Finance Director, Section 151 Officer outlined this was the report which was presented to Cabinet on 16th January 2023 and Finance and Resources Overview and Scrutiny. This report was the third report in a series of updates which was requested by the Finance Commissioner in conjunction with the Lead Commissioner.

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It was highlighted the potential Equal Pay Liability sits alongside the structural budget problems in 2023-24 budget. The Commissioners would like Birmingham to have a balanced 2-year budget (2024-25 and 2025-26 budget). Though work had taken place to find £140 - £150 million pound savings, the budget was not balanced hence exceptional financial support was requested for. This was in order to capitalised on here key areas; potential equal pay liability, potential redundancies and plug the gap for balanced budget for the Council.

Several areas of engagement had taken place including the Finance Board and Commissioners. There were some issues which were continuous and some were one off with the 2023-24 Base placed right.

Details around the significant issues with the budget had been discussed with Finance and Resources Overview and Scrutiny. A series of challenge sessions had been taking place to ensure the savings were as deliverable as possible. Every saving line had a Delivery Plan with a risk assessment and resources request.

Anything in the Capital Programme was part of the value for money work and for the 2 year period. Birmingham cannot rely on prudential borrowing.

Summary of Directorate Changes to Net Base Budget was referred to and a brief summary of how the savings were made was shared. Cabinet and City Council will consider the detail of this.

2024/25 Net Base Budget was built via a Directorate, Division and Service Level followed by the cost centre level. Assurances were provided to Members around the delivery i.e. which cost centre was applied. The overview on the process and assurance was 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 officers).

Members raised questions and made the following comments;

- Questions were raised around the breakdown and understanding of table 3 - Summary of Directorate Changes to Net Base Budget i.e. what was the net based budget made of, cash envelope and inflation/pay award.
- Concerns were raised on the savings within Children and Families in particular Home to School Transport and Special needs areas.
- Officers were reminded of the outstanding actions for the Committee. This referred to a request for information on a comparison with other Core Cities and to gain an understanding of in year overspending to see where Birmingham was (pound per population) - to see if Birmingham was in line with the current condition of local government.
- The Chair requested for the Committee to receive a clear risk register at the next meeting ahead of the Budget setting meeting.
- The Chair requested for a written response of the methodology and assumptions used for rebasing to be shared with the Committee.

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- The Chair requested for a review of the savings from previous years and understanding of why these could not be met and details of this to be shared with the Committee in order to learn from previous years.
- It was queried what was the involvement of the Commissioners in overseeing the budget proposals? Further queries on the budget were raised.
- Reference was made to the 2019/20 budget saving, where £1.7 million was saved in the Oracle programme and 40 members of staff were removed from the programme. The Chair sought assurance from the Chief Executive if she was confident each saving, mitigations of the risk was made i.e. the risk itself would not cause a greater financial burden on the Council and using the risk management framework and culture.
- The Chair sought assurance from the Chief Executive that the budgets savings proposed would not cause unintended consequences in the future.
- Revenue outturn report 2022/23, was to be delivered by November 2023. Questions were raised on the progression of this.
- Further extensive discussions took place on the 2023-24 outturn and budget proposals going forward and if there was a reliable forecast for 2023-24 to set the budget for 2024-25. The Chair was concerned on the position of this as the foundation to base the budget upon was not firm.
- Members questioned if there was confidence that all the Council's Income was being collected.
- It was requested for Audit Committee to have sight of the Delivery Plans as this would need to be monitored.

In response to members questions, the Interim Finance Director, S151 officer and the Chief Executive made the following points:

- A breakdown to the of table 3 - Summary of Directorate Changes to Net Base Budget was provided. Details around this had been discussed with Scrutiny.
- It was noted, demographically, there were some complex need cases where the need and demand for the service had been increased.
- The saving would be considered by Cabinet and Full Council to support the delivery of the budget. The S151 Officer suggested a written response to be shared with the Committee as document containing all the details on the budget savings and breakdown document had been shared with Scrutiny Committee. It was suggested this can be shared with Members of the Audit Committee.
- The S151 Officer agreed to share the Risk Register ahead of the Budget Setting meeting.
- Rebasing – There was a document which was shared with Scrutiny and can be shared.
- Savings – This had been taken out however, Directors were asked if they can deliver these and then this could be placed back into the Delivery Plan and with the reasoning. The savings that cannot be delivered, lessons learnt could be shared with the Committee.
- Cabinet would make the budget proposals to full Council. The proposals must be deliverable by Directors within the organisation. Each Director had been asked to sign off the delivery plans and assure the resources were available to deliver these. There was a structural deficit within the budget and this would be provided in the analysis document on rebasing. Corporate Leadership Team have been challenged on several occasions.

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- 160 + budget proposals have been discussed with the Corporate Leadership Team. The Finance Sub Board, with the Commissioner in charge, had linked into this process.
- The Chief Executive, Interim City Solicitor and Monitoring Officer are meeting the Commissioner weekly in relation to the budget. A lot of work was taking place with the Commissioners to get assurance and they will form their own view on the overall budget.
- Regular updates was taking place via Scrutiny and Group Leaders Briefings.
- The Chief Executive highlighted every budget proposals had political oversight with a clear indication of the mitigation against the risk. The delivery and minimising the impact of the budget saving proposals was important.
- Several levels of scrutiny, risks and assurances had taken place for the budget. At least £300 million budget savings had to be made. Every budget savings had been risk assessed and mitigated.
- Given the number of scrutiny and risk assessment, the Chief Executive informed there were many other factors to consider i.e. global impact, different national politics direction etc. It was important the Council was agile enough to the surroundings which was not in control and assess the impact this has on the services.
- Birmingham City Council had undertaken several levels of assurances, scrutiny, and risk assessment in order to make the budget as robust as possible.
- 2023-24 provisional outturn would be shared will be shared at the March 2024 Cabinet meeting however, this will be considered in the S25 notice to full Council.
- Further details was provided on the budget by the S151 Officer.
- The Budget setting process was done away from the ERP general ledger (Oracle). The budget work had been undertaken outside of this system. Reports can now show the information by Directorates and forecasting. This had been quite accurate as there were other sub-systems used to forecast from. An example of the Childrens Directorate was shared with the Committee.
- Income from Council Tax and Business Rates details was available however, there were some problems around miscellaneous income. The income is collected and indicated on the bank accounts and cash systems. There was proposals to improve this and this would be undertaken as part of the budget setting process.
- The 'Risk' element of the Delivery Plans would be shared with the Audit Committee to monitor the governance, risk and assurance processes. The delivery of the plans would be monitored through Finance & Resources Overview & Scrutiny as well as Co-Ordinating Overview & Scrutiny.
- The Chief Executive notified Members consistent information would be shared across the relevant areas however, Members had to be aware there was a lot of work that had to be done. The process would be streamlined.

Upon consideration it was;

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RESOLVED:-

That the Audit Committee:

- (i) Noted the update on the financial position, as at January 2024,

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- (ii) Noted the details on the budget savings and breakdown document which was shared with Scrutiny Committee would be shared with Members of the Audit Committee.
 - (iii) An update is required on the outstanding action from the previous meeting (29 November 2023) on the comparison with other Core Cities in order to gain an understanding of the in year overspending to see where Birmingham was (pound per population). To see if Birmingham was in line with the current condition of local government.
 - (iv) Noted the Committee to receive a corporate risk register at the next meeting ahead of the Budget setting meeting.
 - (v) Noted a written response of the methodology and assumptions used for rebasing to be shared with the Committee.
 - (vi) Noted a review of the savings from previous years and understanding of why these could not be met and details of this to be shared with the Committee in order to learn from previous years.
 - (vii) Noted the risk element of the Delivery Plans to be shared with the Audit Committee.
-

At this juncture, the Chair informed the Committee item 11 – Finance Treasury Management would be moved to the end of the agenda (The Chair had been informed the External Auditors had leave the meeting by a specific time). Therefore, item 12 – External Auditors Update would be discussed next.

EXTERNAL AUDITORS UPDATE

The following document from the External Auditors was submitted:

(See document No.7 of the agenda pack)

The Key Partner, Mark Stocks introduced his colleague Fiona Baldwin, Head of Audit for Grant Thornton (joined online) to the Committee. The previous key partner, Jon Roberts had retired. Members were informed, that he had now taken over the old audits.

Key points made:

- 2020-21 & 2021-22 Audits – There were two key areas that were being looked at (i) additional procedures – ongoing work and this was not completed at present. A date for completion could not be shared at present; (ii) Equal Pay – two models had been submitted to the External Auditors on 29 November 2023. March 2021 and 2022 had been received. No date was provided on the completion for this work.
- 2022-23 & 2023-2024 Audits – The position of the Council remained the same. There were issues with ERP system, IT issues. A controls workshop had taken place with Birmingham Officers and worked through the first phase of the audit and there are several outstanding questions which officers were preparing the documents for. Another Controls workshop would be taking place in February 2024. The plans should be available for the March meeting.

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➤ Other areas of work including;

Equal Pay - historical backward review – ongoing complex work; work would need to take place looking forward in terms of the Job Evaluation Methodology – recent data had been submitted in relation to this.

Financial Sustainability – This was complex area as some of the interviews had taken longer than anticipated. Further interviews will need to take place in relation to this and would be reported back to the Committee.

Oracle – Final report on Oracle was on the agenda and would be discussed then. Backward looking review had started to see what had happened.

The continuation of Grant Thornton as the External Auditors for Birmingham - Page 161 of the document pack. The External Auditors highlighted it was important for External Auditors to undertake their work without impediment. It was important the findings reported were not undermined. If the External Auditors felt intimidated via physical or complaints system this was taken seriously. The Key Partner indicated if such behaviours continued, then the continuation of the audit would be reviewed. A number of safeguards had been put into place therefore, the Key Partner, External Auditor, indicated he would continue with the audit.

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

Members raised questions and made the following comments;

- Questions were raised around the spreadsheets referred to by the External Auditors and if these would be used to calculate the Equal Pay liability. There were concerns raised as the work on the spreadsheet would take some time however, the (accounts), budget had to be agreed at full Council. It was queried if the models would be ready by March 2024.
- Members raised questions around the position of the External Auditors satisfying themselves on the accounts therefore, queried if the calculations were correct and if the Council can vote on a budget.
- Concerns were raised around the External Auditors considering their position on the audit and questioned who was responsible for intimidating, complaining and undermine their work. Further queries around this were raised and there was a need for more information to be shared with the Committee.
- If there was a legitimate complaint that had to be heard, then questions around this issue still stood.
- Members sought assurance that the work undertaken by both Internal and External Auditors was not inhibited in any way for them to undertake their role. Members need to be aware of the issues the External Auditors were experiencing i.e., was their independence being impeded upon, was there issues on accessing information.

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- The Chair sought assurances from the Chief Executive given the severity of the statements made by the External Auditors and if any of the complaints with the organisation fit within this concern.
- Members were concerned to the statements made as they had never come across such situations and ultimatum by an auditor. Members of the Committee were shocked with the statements made.
- The Chair requested the Chief Executive to investigate the challenges and issues the External Auditors faced from the Council and to provide an update in either a private briefing session or letter to the Committee.

In response to Members questions, the External Auditor, Interim City Solicitor and Monitoring Officer made the following points:

- The spreadsheet referred to by the External Auditors would be used to calculate the Equal Pay Liability.
- The models were ready however, the External Audits were unsure how long it would take to work through this due to some of the assumptions included. Legal advice had to be taken on the assumptions.
- Approvals of the accounts – Government had moved the backstop date, likely to be September 2024 now.
- The External Auditors informed members the Council should not rely on the Auditors as the responsibility for placing the models together was the officers. The 2023-24 Audit would not be finished for when the budget would be set. The information provided by the officers is what should be relied upon. The Key Partner acknowledged this was a difficult position for Members as the 2022-23 accounts outturn was not available and update to quarter 3, 2023-24 accounts.
- The Key Partner confirmed physical violence was referred to as an example and there had been no threats of physical violence and apologised as it was not his intention to infer this. The issue had been discussed with officers therefore there was no need for detail. He was content with the safeguards in place and matters were being handled appropriately.

At this juncture, the Interim City Solicitor and Monitoring Officer advised the Chair the External Auditors had made their position clear and this would need to be respected by the Committee who must ensure the External Auditors can undertake their work professionally.

The Chair acknowledged the advice provided by the Interim City Solicitor and Monitoring Officer however, this information was included in the Audit Committee papers therefore, the Committee could ask questions on the matter.

Further responses were made to Members questions, by the External Auditors. These were noted as:

- The Key Partner did not want to share details of the incidents however, advised the Committee he was comfortable with the safeguards which were in place. It has been agreed to change the way External Auditors and BCC work together by a significant increase in the number of meetings taking place. It had also been recommended to have regular private Audit

Committee meetings with the Chair and Members of the Committee around any concerns.

- The Complaints had been through the Audit Panel within Grant Thornton however, the External Auditor was concerned to the context of the complaint. The Key Partner was content on procedures that had been put into place. Fiona Baldwin, Grant Thornton was now a support partner to assist in managing this. If the Key Partner gets concerned again, he would make the Audit Committee aware if this. Councillors had to be made aware of this issue hence raised in the public domain. A constructive relationship between Members and officers was required otherwise the Key Partner informed the Committee, he would resign the audit with immediate effect.
- 2023-24 audit was a contract of £1million pounds with Grant Thornton.
- The Chief Executive informed the last 12-18 months, work with the External Auditors had been professional and supportive and appropriate scrutiny had been undertaken.
- The Chief Executive, Interim Finance Director, S151 Officer and the Interim City Solicitor and Monitoring officer had met with the Key Partner on this matter. The organisation had zero tolerance on physical threats etc. respectful relationship was in place with the External Auditor and their colleagues. Any issues raised by the External Auditor would be raised and resolved. The relationship between the Council and the External Auditors was important.
- The Chief Executive stated there was zero tolerance for physical or intimidation. She was grateful the External Auditor had indicated the Council was responding in a positive way.

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RESOLVED:-

That the Audit Committee:

- (i) Noted the update provided by the External Auditors; and
- (ii) Requested the Chief Executive to investigate the challenges and issues the External Auditors faced from the Council and to provide an update in either a private briefing session or letter to the Committee.

FINAL REPORT ON ORACLE

The following document from the External Auditors was submitted:

(See document No.8 of the agenda pack)

The Key Partner, Mark Stocks informed members the ERP system, (Oracle) was not in the right place. There was significant issues over the past year of where the Council is ad what it was trying to implement.

As a result, three areas had been looked at by the External Auditors; (i) Finance Operations; (ii) Safe and Complaint Programme and (iii) Future Optimisation. It was highlighted there was a significant issue with the BRS system which would not be resolve for at least 6 - 12 months. As a result, significant manual workarounds were taking place.

Many issues were moved from Safe and Compliant stage to the Future Optimisation stage which had been paused and placed back. Safe and Compliant would therefore take longer than anticipated.

A series of recommendations made by the External Auditors was set out in the report on the various areas outlined. An overview of the recommendations was shared with the Committee Members. There was a particular concern around Oracle expertise and building the capacity into the future. The Key Partner acknowledged that officers were working hard on this area however, the progress anticipated had not been made at this stage.

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

Members raised questions and made the following comments;

- The Chair was concerned on a paragraph on page 20 of the report, on the retention of finance staff. This paragraph was read by the Chair. It was questioned if this was a recent discovery or a review of what the position prior to members being alerted to the Oracle issue?
- Reference was made to the *'deep dissatisfaction with the senior management culture and lack of receptiveness to finance expressing concerns, perceptions of poor treatment by colleagues outside of the finance team....'* Statement in the report. It was questioned if this was happening now.
- The Chair queried with the Chief Executive if she was aware of the staff deep dissatisfaction during this period and if any actions had been taken to challenge this and support those who were affected? To the period before the issues of Oracle were highlighted. It was questioned if the signs of the dissatisfaction was missed by the Chief Executive as the working environment continued to the possible failures.
- Reassurances were sought by the Chief Executive that all members of the Programmes and Finance Team currently engaged in the Oracle Implementation Recovery was supported correctly, felt confident, positive about their roles and were being supported and cared for.
- It was suggested that at the end of the second paragraph of the statement on the report, it would have been helpful to indicate 'these concerns had been addressed'.
- Questions were raised around the S151 officer being the Senior Responsible Officer (SRO) for the Oracle programme and the concerns around the level of pressure of the budget proposals and responsibility.
- It was questioned to the External Auditors if in their opinion if investing in Oracle should continue or move away from this.
- The Chair requested for information to be provided on why there was a delay to get to safe and complaint. Previously, the Committee had received various briefings from Oracle Team, Programme Leads, Directorate of Transformation where various updates was to be provided to the Committee (e.g. Update on DBS checks etc).
- There were previous concerns on GDPR and questions were raised if GDPR risk assessment were in place to the systems given the Oracle situation.

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- The Chair requested for a full response to the final report on Oracle from the External Auditors to be shared at the next meeting.

In response to Members questions, the External Auditor, the Chief Executive and the Interim Finance Director, S151 Officer made the following points:

- The Finance Team had been affected for over the last year. Finance Team have had to deal with the workarounds, BRS Cash systems not working effectively and the fatigue for the finance team builds up over time. Some staff have been dealing with this since April 2022 and for a prolonged period they have not been listened to and still dealing with this now. It was important to consider what resources had to be in place to ensure the finance system works from 01 April 2024. It was recognised the Finance Team was fatigued and had been for a long time.
- The Key Partner confirmed the statement around the '*deep dissatisfaction with the senior management culture*' this was not happening at the moment. This happened up until the point Oracle was know as an issue and improved since. Finance colleagues still require assistance to fix the issues and no solution was in place for them. Finance Team have tried to push for change however, the change had not occurred.
- The Chief Executive informed members that when it became clear there were issues with the implementation of Oracle, a number of sessions took place with staff to understand how they felt. It was clear the leadership of the Finance Team was not right therefore alternative arrangements went into place where staff were supported. Additional capability and capacity was in place to manage the challenges. The Chief Executive was not aware of the dissatisfaction and poor treatment staff experienced before the implementation of Oracle had failed. This was not seen in other departments either. If there was a systemic issue where staff were unhappy with the leadership, this would be raised with CLT.
- There was no indication of dissatisfaction in the leadership in a systematic way that was brought to the Chief Executive's and Corporate Leadership's Teams attention, and it was the reverse.
- When external staff join the Council, they saw the challenges faced within the Finance Team.
- The Chief Executive assured the Chair, that at the point when she was made aware of any issues, this was actioned upon very fast, and staff were brought together as it was not to be tolerated.
- A lot of time, effort and energy had been invested in staff welfare and support for staff across the organisation. Finance Team had an additional Employee Support in place.
- The Chief Executive was assured through the Interim Finance Director, S151 Officer and through the Programme Manager for Oracle that there was support for staff in the Directorate. All staff within the organisation supported and cared for by the Employee Support arrangements and processes was in place.
- The S151 officer notified members a full management response will be shared with the Committee on the Oracle report from the External Auditors. The teams had been under extreme pressure as across the

Council. 270+ staff had not been listened to for over a year was difficult to come back from. It was difficult to build the level of trust. Sessions were taking place with KPMG to look at this. The S151 officer had a team of officers challenge her. Fortnightly meetings take place with the local trade unions. Key areas of discussion are around Stress Risk Assessment, and this is revisited regular.

- The staff survey of Council Management, where Finance had indicated concerns around stress, lack of trust and not being listened to. The interim posts had to become a permanent team in order to build the team and have promotions etc. This was a long journey for finance.
- The S151 Officer was now the official Senior Responsible Officer (SRO) for Oracle
- The Key Partner informed it was for the Council to form a view on if Oracle should continue or move away from this. The optimisation process was not there yet.
- There External Auditors informed there was some compliance issues that the HR Team were concerned about, and this was an area that had not been resolved. There were areas that Birmingham was not fully compliant.

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RESOLVED:-

That the Audit Committee:

- (i) Noted the contents of the report as set out by the External Auditors,
- (ii) Noted an update to be provided to the Committee on DBS check, why safe and complaint with Oracle has not been achieved and reasons for the delay; and
- (iii) Noted a full response to the final report on Oracle from the External Auditors will be shared at the next meeting of the Committee.

(Agenda Item 11 – Finance – Treasury Management was discussed at this point in the meeting)

FINANCE – TREASURY MANAGEMENT

The following document from the Interim Finance Director, Section 151 Officer was submitted:

(See document No.9 of the agenda pack)

The Interim Finance Director, S151 Officer introduced the new Oracle Programme Lead, Philip Macpherson. Members were notified the SRO role for the Oracle was assigned to the Interim Finance Director, S151 Officer. The Finance Commissioner was in agreeance this role sat with the S151 Officer however, there was support put in place for discussions to take place with other Finance Directors in the private sector as well as other government departments where the dual role has been carried out. This was support for the S151 officer.

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The Chair shared his concerns around the practicality of resource and ability to undertake the job. The Chair checked if additional resource was in place to ensure the S151 officer was able to carry out the role.

Extra support had been put in place including a Financial Recovery Lead on Oracle (Barry Scarr). He would be focussing on the finance aspects of Oracle. This was supported by the Chief Executive.

The three statutory officers (Chief Executive, Interim City Solicitor & Monitoring Officer and the Interim Finance Director, S151 Officer) provide mutual support across the organisation and avoid any undue stress. The Chief Executive emphasised it was important employees felt supported as this was a pressuring time for the Council. This was the top priority for the Chief Executive.

At 1735 hours, Councillor Grindrod (Chair) left the meeting and announced Councillor Tilsley, (Vice Chair) to continue the meeting.

The Assistant Director Financial Strategy shared a presentation on the screen. This covered;

- Audit Committee's role
- Treasury and risk management
- The Council's TM Strategy highlights 2024-25
- Treasury Reporting and Monitoring

The presentation gave an outline to a guidance of managing treasury management activities; the headlines figures for Birmingham City Council; key risks and issues that were managed; Treasury Strategy for 2024/25; BCC's treasury reporting and monitoring; summary dashboard: Q22023/24; BCC's TM policy (Approx Budget for 2024+) ; BCC's TM Strategy (Appx to Budget 2024+) and the Treasury Management system in Local Government.

At 1737 hours, Councillor Grindrod returned to the Chair.

The key risks and issues we manage were noted as:

- Liquidity and refinancing risk - the risk that the Council cannot obtain funds when needed
- Interest rate risk - the risk that future borrowing costs rise post budget
- Credit risk - the risk of default in a Council investment
- Environmental, Social & Governance (ESG) risk

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

Members raised questions and made the following comments;

- The Chair queried how much the risk had increased on the Credit risk due to the S114 notice.
- Reference was made to Lender Option, Borrower Option (LOBO) as this was not seen in the report.

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- How much of the risk management culture has influenced on this approach to treasury management?
- It was questioned if £3.3 million, total loan debt outstanding include pensions?

In response to members questions, the Assistant Director Financial Strategy made the following points:

- Members were informed that certain lenders may choose not to lend to Birmingham whereas previously a lender would have 3-4 Council's bidding for the funds. The Section 114 Notice had reduced the flexibility for Birmingham.
- LOBO - There was £71 million however, there was now £61 million. Redeem £10 million this year.
- There was a lot of guidance and regulations around the code around treasury management. There was a risk management framework already in place. However, a lot more challenge was being posed onto the risks and assumptions therefore this was enhanced.
- The total loan debt outstanding of £3.3 million did not include pensions. The pension deficit was a separate entity on the balance sheet.

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RESOLVED:-

That the Audit Committee noted the Council's treasury risk management arrangements as set out in the attached draft 2024/25 Treasury Management Policy, Strategy and Treasury Management Practices.

SCHEDULE OF OUTSTANDING MINUTES

Minute 575 (ii) - 28/03/2023; 577 (vi) - 28/03/2023; 603 (iii) - 28/06/2023 – Milford Research & Consultancy Limited to incorporate into the bitesize training sessions for the Committee. Remain as ongoing work.

Minute 642 (ii) 15/09/2023 – Report on Oracle - Final report on Oracle presented at the 31 Jan 2024 meeting ***Completed & Discharged***

Minute 666 06/10/2023 - Assurance Session – Leaders Portfolio This will be considered as part of the new work programme for the Committee (as part of the Assurance Sessions). Dr Rob Milford to programme this. ***Completed & Discharged***

Minute 675 18/10/2023 – Internal Audit Update - Response circulated via email to Committee Members on 08/12/2023. ***Completed & Discharged***

Minute 676 18/10/2023 – Strategic Risk Register – Risk Management Update - A report on Risk Management is scheduled on the 31 Jan 2024 Committee agenda. ***Completed & Discharged***

Minute 679 (iii) 18/10/2023 - Responses to Councillor Yip's questions emailed to Committee Members on 21/11/2023. ***Completed & Discharged***

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Minute 679 (v) 18/10/2023 - Email giving information to a secure repository of reports was circulated to Committee Members on 20/11/2023 ***Completed & Discharged***

Minute 690 (i), (ii) & (iii) 29/11/2023 - The Terms of reference were approved by City Council on 09 January 2024 and reflected in the Constitution. ***Completed & Discharged***

Minute 695 29/11/2023 – A report on 31 January 2024 agenda– Finance Update – January 2024 point (i) & ii) ***Completed & Discharged***

Minute 697 29/11/2023 - A report on 31 January 2024 agenda – Final Report on Oracle. ***Completed & Discharged***

All completed and discharged actions will be removed from the schedule and outstanding actions will be followed up by officers.

The Chair updated the Committee on the position of outstanding actions and noted some outstanding actions to remain on the schedule for information only.

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RESOLVED:-

That the Audit Committee noted the schedule of outstanding minutes.

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DATE OF THE NEXT MEETING

The next meeting was scheduled to take place on Wednesday, 21 February 2024 at 1400 hours in Committee Room 3 & 4, Council House.

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OTHER URGENT BUSINESS

Introduction to the Annual from the Chair of Audit Committee to Full Council

The Chair indicated the process would be similar to last year. The draft report will be circulated by the Independent Technical Advisor of the Audit Committee for Members to submit any comments (deadline for comments would be indicated).

The report would be approved by the Committee before progressed to full Council. The final report will be shared at the 16 April City Council meeting.

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.

The meeting ended at 1751 hours.

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CHAIR