

Birmingham Organising Committee for the 2022 Commonwealth Games Limited
Audit and Risk Assurance Committee Meeting

1:30pm, Monday 17 February 2020

Held at: PwC Offices, One Chamberlain Square, Birmingham, B3 3AX (The Boardroom)

Attendees:

Members:

Representative Member from Commonwealth Games England (Chair)
Representative Member from Department for Digital, Culture, Media and Sport
Independent Board Member (by telephone)
Representative Member from Birmingham City Council
Ex Officio Member

In Attendance:

Chief Executive Officer, B2022
Chief Financial Officer, Birmingham 2022
Head of Financial Management, Birmingham 2022
Head of Financial Planning, B2022
Head of Programme Management, Birmingham 2022
Internal Audit Partner, PricewaterhouseCoopers (PwC)
Audit Director, National Audit Office
Audit Manager, National Audit Office
Sponsorship Specialist, B2022 (for Item 7 only)
Executive Assistant, Birmingham 2022 (Secretariat)

Item No	Item	Action Owner
1	<p>Welcome and introductions</p> <p>SB opened the meeting and thanked PwC for hosting the first ARAC offsite meeting. NT and SL joined the meeting by telephone.</p> <p>SB also welcomed BR from The National Audit Office and GB as an Ex Officio Member of ARAC.</p> <p>Apologies were received from CH, CMcG, AB and AH in advance of the meeting.</p>	
2	<p>Actions and Minutes</p> <p>The minutes of the ARAC meeting held on 29 October 2019 were formally approved.</p> <p>The minutes of the ARAC meeting held by telephone on 16 January 2020 were formally approved.</p> <p>The Board has not yet discussed the Lifecycle Budget. The comments which were made at the 16/01/2020 ARAC telephone meeting will be incorporated into the Lifecycle Budget.</p> <p>The outstanding actions were noted to be considered within the 'Action log' section later in the meeting.</p>	

<p>3</p>	<p>Internal Audit</p> <p>a. Programme for 2020/2021</p> <p>GC presented the “Internal Audit plan 2020/2021”.</p> <p>SB noted that it had been agreed previously that the IA team should review legacy activities of the OC and asked that this be incorporated within the plan.</p> <p>Action:- Programme for 2020/2021 to be updated to have a clear Legacy element.</p> <p>In response to questions from the Committee, both PwC and the Executive confirmed that they had in place adequate resources to complete the proposed work in the timescales envisaged.</p> <p>SL questioned how the PwC internal audit work would interact with other audit/review activities in connection with the Games, such as the MPRG process. SB noted that Games audit work was being coordinated via an Integrated Assurance Forum (see 3b below).</p> <p>Both NT and GB noted the importance of dealing with actions arising from internal audit reports in a prompt manner and asked for transparency for the Committee on progress.</p> <p>Action: OC to confirm reporting proposals in respect of IA report actions</p> <p>IR suggested that the plan be rephased such that planned audit work be completed by the first half of the 2021/22 financial year to allow PwC to focus on more dynamic/responsive work in the months leading up to the Games. This suggestion was agreed by the Committee.</p> <p>The Committee approved the plan for 2020/2021 subject to any changes required in response to the phasing point above and that the Core Finance and HR process review be brought forward to Q3 so that it could be concluded prior to the year end.</p> <p>Action: GC to review scheduling of Programme for 2020/2021 in line with feedback.</p> <p>b. Internal Audit Progress Report</p> <p>GC presented the Internal Audit Progress Report and confirmed that all audits were proceeding in line with timetable:</p> <ul style="list-style-type: none"> • 2 audit reports completed (Finance systems and IT general controls and Risk Management) – See 3c. below. • One report drafted and awaiting Management comments and Board Chair’s review (Games Governance) • 2 in progress (Procurement and Budget Process) • 2 in scoping phase (GDPR and Data Protection and Security). <p>Action: Agree date for an ARAC meeting in April 2020</p> <p>Action: GC to share the PwC Games Governance internal audit report with the Committee once finalised.</p> <p>GC informed the Committee that PwC had been engaged by the OC (under the terms of the previously procured professional services contract) on the following activities:</p> <ul style="list-style-type: none"> • Data mapping for the IT team • Taxation and accounting treatment review of the Host City Contract • Provision of secondees to assist with the business case and set up of the UK Festival subsidiary 	<p>GC</p> <p>DG</p> <p>GC</p> <p>SB</p> <p>GC</p>
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SB requested that going forwards PwC seek to avoid conflicts of interest with their internal audit role such as had been created by the use of a secondee by the Festival subsidiary.

GC informed the Committee that PwC had convened and chaired an Integrated Assurance Forum (“IAF”) comprising the organisations involved in the audit review of all aspects of the Games. Alison Breadon has been confirmed as the Chair of the Forum and the next meeting is scheduled for April 2020 with feedback to be provided to the next ARAC meeting.

Action: Terms of Reference for IAF to be shared within OC.

Action: Feedback from IAF to be on agenda for June 2020 ARAC meeting.

GC
EB

c. Completed Audit Reports

The Committee considered the following completed internal audit reports:

HR, Financial Systems & IT General Controls – Medium risk

GC summarised the report findings as follows:

- the points in respect of finance were minor and advisory in nature.
- the IT matters raised were not unexpected given the relative immaturity of the organisation and that many of the proposed actions had been implemented by the IT team prior to the issue of the report.
- the HR and payroll process issues noted had been identified by management which was working on process and control improvements given that the current controls would cease to be effective as the organisation grew.

Risk Management Processes – High risk

GC summarised the report findings as follows:

- The report reflects status in November 2019 since when changes to reporting and a new technology solution have been introduced;
- Whilst the process is well structured, it is potentially too rigid with insufficient monitoring of risk mitigation activities;
- The articulation of risks could be better; and
- Risk management would be enhanced with a more consistent approach to risk on both the Board and EMT agendas.

SL enquired as to whether issues related to design or implementation and whether there was a link to the findings of the draft Governance report to be discussed at the next meeting.

In response, DG commented that whilst the bottom up identification and review of risks by teams within the OC was a well developed activity, the top down review and reporting processes were still in development.

SB stated that this was clearly the case given that some issues had moved from low to high risk very quickly and this would not be expected in a more mature risk management environment.

The Committee noted the “high risk” status of the report but also recognised that significant work was in hand to improve risk management processes as suggested.

Action: Risk management process to form part of Risk agenda item at future ARAC meetings

AH

4

Financial Accounts for 31st March 2020

a. National Audit Office Audit Plan

GW presented the “Audit planning report on the 2019-20 Financial Statement Audit”. The key points highlighted were as follows:

- The most significant audit risks are, management override of controls, fraud in revenue recognition and the new system implementation. GW noted that the first two of these risks were mandated by auditing standards rather than being a reflection on the OC.
- Materiality for the audit is £312k with errors over £6,247 to be reported.
- The audit timetable is consistent with the objective of laying accounts in Parliament before the summer recess.
- The audit fee is £38k based on increased levels of work anticipated this year
- Value in Kind (“VIK”) transactions would be an area of audit focus albeit no individually material transactions were expected in the current year.

SB commented that the reporting materiality appeared low and the fees had increased since the prior year.

GW acknowledged that the reporting materiality was low but explained that this was a policy decision by the NAO and not something he could change. He confirmed that the fee was related to additional work expected this year and the fee could flex downwards if less work than planned proved necessary.

In response to a question from SB, DG confirmed he was comfortable with the proposed fee.

SB sought confirmation that the NAO’s previous experience was being brought to bear in its assessment of risk and GW confirmed that this was the case citing Value in Kind transactions as a specific example and noted that the NAO would be offering the OC advice on the application of Value for Money rules.

In response to a question from SB, GW confirmed that the matters raised for the Committee on page 2 of his report were appropriately covered within the agenda for the meeting.

The Committee approved the Audit planning report on the 2019-20 Financial Statement Audit.

b. Year-end Governance

SH presented the “Year end Governance” report.

In response to a question regarding the incorporation of the Festival UK subsidiary, previously agreed by the OC Board, SH confirmed that the planned date for incorporation was 1 April 2020 with the result that it would not form part of the OC financial statements for the current year. SB questioned whether it would be a disclosable post balance sheet event and SH agreed to provide an update prior to the next meeting.

SB asked that an update on the status of Festival UK governance be provided to the Committee in advance of the next meeting given the imminent incorporation of a subsidiary of the OC.

The Committee noted the contents of the paper.

Action:- OC to provide an update of Festival 2022 Governance (including the (post balance sheet event point raised above).

Action:- SL to provide an update on the Board appointment process

SH/CM

SL

c. Format of Financial Statements

SH presented the “Format of Financial Statements” report.

The proposal contained within the report was noted and approved by the Committee.

d. Key Financial Judgement and Policies

SH presented the “Key Financial Judgements and Policies” Report highlighting the following:

- The Financial Statements will be prepared in accordance with International Financial Reporting Standards (IFRS);
- The Financial Statements will comply with both the Companies Act requirements and the Accounts Direction issued by DCMS
- Key accounting policies for the period ended 31 March 2020 include Grant Recognition, Value in Kind, Provisions and Accruals, IFRS 16 – Lease Accounting, Countdown Clock, Festival UK Legal Entity.

The Committee noted the contents of the paper.

e. Value in Kind

SH presented the “Value in Kind Transactions” report and confirmed the following:

- The final accounting policy will be presented to ARAC at the June ARAC meeting following clarification of certain elements of the Host City Contract with CGFP which relate to VIK accounting;
- The OC has engaged PwC to review its proposed VIK accounting;
- The OC has kept the NAO informed of its proposed approach in this area.

SB noted that whilst it was not ideal to be agreeing an accounting policy at the same meeting at which the accounts would be reviewed, he was comfortable with the approach given that discussions with CGFP remain ongoing. SB also noted that VIK transactions were not anticipated to be material in the current year.

IR provided a brief reminder of the role of CGFP in this context.

The Committee noted the contents of the paper.

5

a. Financial Management

SH presented the “Financial Management” report with key points as follows:

- During the period the OC can confirm it has complied with the requirements of the Management Agreement.
- The scope of the OC’s permitted commercial insurance programme had been confirmed in writing by DCMS.

In response to a question following up the Directors & Officers insurance position, SL confirmed that DCMS’s proposed approach was that similar wording to that provided to DCMS staff

<p>serving as directors of ALBs would be issued to OC Directors and Officers.</p> <p>The Committee noted the contents of the paper.</p> <p>Action:- CM to update on whether employee contracts provide adequate ability to take action in the event of bad faith or poor performance at the next meeting.</p> <p>Action:- SB to highlight the payroll control issue to the Board.</p> <p>b. Financial Performance to 31st Dec 2019</p> <p>EF presented the “Financial Performance Reporting to 31 December 2019” report with the key points as follows:</p> <ul style="list-style-type: none"> • There are no matters of concern to report in respect of the Games Lifetime Budget with contingency believed to be consistent with the level of identified risks. • The current projected outturn for the year is an underspend against the OC’s <p>SB requested that the Annual budget reporting be updated to show the position at the start of the quarter and the latest quarterly expenditure.</p> <p>Action:- It was proposed that within the annual budget report, a column should be added showing the cumulative annual expenditure at the start of the current quarter</p> <p>The Committee noted the contents of the report.</p> <p>c. 2020/2021 Forecast</p> <p>EF presented the “2020/21 Budget and Forecast” report.</p> <p>SL asked that figures be reported against original budget for the DCMS finance team until the supplementary estimate had been completed and DG confirmed that this was the intention of the OC.</p> <p>DG raised the risk highlighted by DCMS Finance team that budgets unspent for 2 consecutive years could be forfeit and that the current year underspend could fall into that category in March 2021. SL expressed confidence that any issues arising could be resolved.</p> <p>Noting the above, the Committee recommend the 2020/21 Budget and Forecast to the Board for approval. The committee also approved the proposal to report departmental financial performance using the forecast rather than budget and noted the projected underspend against budget in the 2020/21 financial year.</p>	<p>CM</p> <p>SB</p> <p>EF</p>
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<p>6.</p>	<p>Annual Fraud Update</p> <p>SH presented the “Annual Fraud Update to 31 December 2019” report with the key points as follows:</p> <ul style="list-style-type: none"> • No losses were incurred as a result of attempted frauds; • IT team has been working with the National Cyber Security Centre to ensure the OC has an effective action plan and controls are in place to identify and mitigate such attempted frauds; • All staff training has been completed on fraud, bribery and money laundering and will be updated periodically; and • The actions approved in the 2019/20 fraud action plan had all been completed. <p>SB commended the report.</p> <p>The Committee discussed the cyber security risk facing the business and whether, given those risks, it remained appropriate for the OC to be operating on a self-insured basis. SH confirmed that the self-insured approach was mandated by Government.</p> <p>The Committee approved the 2020/2021 Fraud Action Plan and noted the contents of the paper.</p> <p>Action:- GW to pick up Cyber self insurance discussions with SL.</p> <p>Action:- SB requested information on Whistleblowing annual report be tabled at next meeting.</p>	<p>GW/SL</p> <p>CM</p>
<p>7.</p>	<p>Commercial Income</p> <p>PR presented the “Commercial Partnership Update” report to ARAC with the key points being raised as follows:</p> <p>The Committee asked questions on specific categories and concluded that the report was helpful in understanding the risk attaching to commercial revenues. CH requested that prompt updates be provided should any significant issues materialise.</p> <p>The Committee noted the content of the report.</p>	
<p>8</p>	<p>Risk</p> <p>a. Blue Sky Risk Review.</p> <p>SB advised members that a “Blue Sky” Risk item will be included on the next ARAC agenda, to encourage Members to identify wider risks in the programme.</p> <p>Action:- Blue Sky Risk to be included on the June ARAC meeting agenda.</p> <p>b. Risk Assurance Update</p> <p>PK presented the “Risk Assurance Update” report with the key points as follows:</p> <ul style="list-style-type: none"> • A total of 18 new risks have been identified during this reporting period. • The OC Risk Register currently contains 85 risk items, which is a net increase of 11 during this reporting period. • A new risk management system is being rolled out to the business to facilitate the OC’s risk management process. • All individually significant risks are detailed within the report. 	<p>SB</p>

9	<p>a. ARAC Self assessment Results</p> <p>The Self Assessment questionnaire only had 5 responses. The Assessment will not be carried out again for another year. SB asked that next time all should contribute in order to obtain quantifiable results with a view to improving the operation, management of Committee.</p> <p>b. Forward Agenda</p> <p>In addition to the items identified in the paper, the following matters will be included on the June 2020 meeting agenda:</p> <ul style="list-style-type: none"> • NAO year end report • Update on Risk Management Framework • Closed session for members with the NAO prior to the meeting • Blue Sky risk Review <p>c. Action Log</p> <p>2019/04-02 – IR to update on latest plans for legacy at next meeting</p> <p>2019/04-06 Proposed for closure</p> <p>Action:- Previous ARAC Paper on Cyber Security to be shared with GB</p> <p>Action:- SB to pick up mooted “franchise protection committee” with IR</p>	<p>IR</p> <p>SH</p> <p>SB</p>
10	<p>Any Other Business</p> <p>The virtual Boardroom App is now to be used for distribution of papers going forward. All members and attendees have access - any feedback should be emailed to Emily Barling.</p> <p>The Committee agreed a proposal that the next 3 ARAC meetings should incorporate visits to Games venues with an opportunity to do deep dive into the relevant capital projects.</p> <p>Next formal meeting on 29 June 2020. It was agreed that an ARAC call should be arranged for April.</p>	