



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE COUNCIL

WEDNESDAY 6TH DECEMBER 2023, AT 6.00 P.M.

PARKSIDE SUITE - PARKSIDE

SUPPLEMENTARY DOCUMENTATION 2

10. **Joint Auditor's 2020-2021 and 2022-2023 Annual Report (Pages 3 - 8)**

As detailed in the main agenda pack, this matter was discussed at a meeting of the Audit, Standards and Governance Committee held on 27th November 2023. The recommendations on this subject together with the relevant extract from the minutes of this meeting appear in this supplementary agenda pack for consideration at the Council meeting.

S. Hanley
Acting Chief Executive

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5th December 2023

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BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

27TH NOVEMBER 2023, AT 6.00 P.M.

PRESENT: Councillors D. J. Nicholl (Chairman), H. D. N. Rone-Clarke (Vice-Chairman), R. Bailes, R. J. Hunter (substitute), D. J. A. Forsythe, D. Hopkins, B. Kumar, B. M. McEldowney, S. T. Nock and J. D. Stanley

Observers:

Mr. J. Murray – Key Audit Partner, Grant Thornton
Councillor C. A. Hotham – Portfolio Holder for Finance and Enabling (on Microsoft Teams)

Officers: Mr P. Carpenter, Ms M. Howell, Ms. N. Cummings, Mr. A. Howe (on Microsoft Teams) and Ms. A. Khan (on Microsoft Teams).

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JOINT INTERIM AUDITOR'S ANNUAL REPORT 2021-22 AND 2022-23

The Key Audit Partner from Grant Thornton presented the Joint Interim Auditor's Annual Report for years 2021-22 and 2022-23 and in doing so noted that the Report covered arrangements for the period from 1st April 2021 to 31st March 2023. It was noted that the final auditor's annual report for 2021-22 and 2022-23 could not be issued as the final sets of Accounts for both these years had not been audited.

It was noted that this Joint Interim Auditor's Annual Report followed from the Section 24 Report considered by the Audit, Standards and Governance Committee on 9th November 2022. Last year's Section 24 Report set out the Statutory Recommendation issued by the External Auditor under Section 24 of the Local Audit and Accountability Act 2014. It was highlighted that the Report before Members updated on the progress against Statutory, Key and Improvement Recommendations that were issued at that meeting.

The Key Audit Partner explained that the Statutory Recommendation issued last year had been updated, and this was solely due to the Council's non-delivery to date of the 2020-21 financial statements. Subsequent financial statements also remained unaudited. It was deemed appropriate by the External Auditor to continue with the statutory recommendation due to the issues of transparency with financial reporting that still need to be fully resolved.

An update was provided on the status of the five key recommendations issued by the External Auditor in the previous year. It was noted that of the five key recommendations, four had been lifted, resolved, or downgraded to an improvement recommendation status, a lower level of recommendation that could be issued by the auditor. There were now 10 improvement recommendations. One serious weakness remained in relation to opening balances linked to the budget which would only be able to be resolved through the delivery of the Accounts. This continued to be highlighted through the one Section 24 Statutory Recommendation.

It was noted that the External Auditor's had raised one new key recommendation with regard to organisational capacity and capability. The External Auditor deemed it appropriate to raise this key recommendation due to the Council's high staff turnover and capacity constraints coupled with the task of rectifying the issues with the ledger implementation. It was noted that the Council now had a Workforce Strategy in place which was a step in the right direction to resolve this recommendation, but effort now needed to be directed towards embedding this Strategy within the Council's processes.

Improvement recommendation 7 was discussed in more detail as it related to improvements that were suggested by the auditors to the operation of the Council's audit committee processes. It was highlighted that the Council should consider the merits of appointing two appropriately qualified independent members to the Audit, Standards and Governance Committee. It was raised, however, that recruiting to these roles might be difficult unless appropriate remuneration was provided to independent members.

Following the presentation of the report, detailed questions were asked by Members which included the following:

- It was asked in the context of concerns about the slow progress when would the 2020-21 Accounts be submitted to the auditor? – It was reported by the Interim Director of Finance that data take-on balances for period 0, which had to be extracted from the legacy eFinancials ledger system, had now been provided to external auditors. This data was provided to the auditors directly from the providers of the old ledger system, Advanced, to ensure that it had not been manipulated. It was estimated that the review of this, and resolution of any questions on data that might be raised by the Grant Thornton data team, would take another two to three weeks, so it was hoped that agreement on data take on balances could be reached at some point in December. It was then hoped that the Council's draft 2020-21 Accounts could then be submitted for audit before the Christmas period, and the audit would be concluded by the end of March 2024. The Interim Director of Finance commented that he was reticent to issue the draft accounts before the data take on balances were agreed due to the high-risk that this might result in qualified accounts.

- What were the details of Government's plans for introducing backstop dates for audits of local authority accounts? – It was explained that this was a proposal for enforcing statutory deadlines for local authorities to complete outstanding audits that, if not met, would lead to an automatic issuing of qualifications and disclaimers of opinion for those sets of accounts. This meant that if the accounts for a given year were not fully audited at a backstop date the auditor would be required to stop the audit of that year's accounts, issuing a disclaimer opinion on that year's accounts, and move on to the more recent set of outstanding accounts. It was highlighted that this measure was a proposal at this stage and would require a change in legislation in order to come into effect. However, it was highlighted that if the provisional deadline of 31st March 2024 for finalising audits of 2020-21 and 2021-22 accounts would be introduced, the Council would be unable to meet the deadline for both sets of accounts.
- Some Members further enquired whether there was now an expectation that the Council would be issued with qualified opinions for at least some of its outstanding accounts. – The Interim Director of Finance responded that the key issue concerned providing the auditors with a proof of period 0 balances. At this point, the Grant Thornton data team had received the period 0 balances and had responded to the Council with 92 queries which the Council was in the process of responding to.
- What was the scale of delays across the local government audit sector? – It was noted that there were significant capacity issues, both within local government and within audit firms which impacted on the auditing of local authority and other public bodies' accounts. It was noted that there were now around 900 outstanding sets of local authority accounts which should have been closed by 30th November 2023. It was highlighted that this was a specific issue in England, and no comparable backlogs were happening in Scotland or Wales.
- Some Members noted that local accountancy firms could be asked to help with the closure of accounts process and to clear the backlog of the Council's outstanding accounts. Officers responded that Bromsgrove (and Redditch with which Bromsgrove had shared staff arrangement) faced a very particular set of challenges in its closure of accounts process, the legacy of problems that emerged following the change of the Council's ledger system in 2021. It was also noted that public sector accounting differed considerably from private company standards and there were considerable difficulties in finding the right specialists for the issues that the Council faced. Nevertheless, it was noted that Council had been getting help in

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clearing the suspense accounts from a private sector orientated firm based in Birmingham.

- Members requested clarification with regards on the provision of period 0 balances for 2020-21 Accounts to the External Auditor. It was responded that until recently the Council could not access the data on the legacy ledger system, eFinancials, as there was no licence in place for the old system to extract the data. The Council had subsequently succeeded in reinstating their business objects licence for the eFinancials system. However, Advanced, the ledger system provider, then undertook the work in order to extract and run a period 0 report which was then submitted directly to the auditor. It was confirmed that period 0 data take on balances had now been received by the auditors. The Portfolio Holder for Finance and Enabling commented that getting the balance transfers done was an important step after such an arduous process to get to this stage.
- The Key Audit Partner from Grant Thornton, Mr. Murray, confirmed that the Section 24 Notice would be withdrawn once the Council published the draft versions of all its outstanding accounts, for years 2020-21, 2021-22 and 2022-23.
- Members enquired about staffing issues rectification and the implementation of Workforce Strategy. It was explained that reliance on agency staff had continued, but the number of agency staff had reduced in the last month from 92 to 77. This was out of around 800 full-time equivalent staff in total. In terms of implementing the Council's Workforce Strategy, it was reported that this included an action plan with 21 items for delivery by March 2024 and 80 items as longer-term actions. It was noted that these longer-term actions would need to be reduced to a more achievable number. An example of workforce actions already taken in the finance team was given, with the Committee informed that in terms of succession planning the finance team now had 3 CIPFA trainees, where previously there were none for a number of years. The Council was also trying to find ways to maximise the use of the apprenticeship levy.
- It was requested that Members be provided with an update on the current progress with fulfilling the action plan of the Workforce Strategy. Some Members also suggested that it would be useful for readability and understanding of the key finance reports to have RAG risk rating attached to key information in those reports so that Members had a better understanding of which issues were truly priorities for the Council at a given moment.
- Consultation on the 2024-25 Medium Term Financial Plan (MTFP) budget savings proposals – Some Members queried what consultation was undertaken on the budget savings proposals

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given that the External Auditor recommended the Council should engage the public and key stakeholders more in the budget process. It was noted that in Tranche 1 of the Budget there were no real savings proposal, and the savings proposals could only be made once the Local Government Financial Settlement had been announced, which would be on Wednesday 20th December this year. After Christmas and in Tranche 2 of the budget process, the Council was looking to consult with Parish Councils and business groups, as these would be the prime interest stakeholders for the District Council's budget. In addition, a presentation on the budget was planned to be delivered to the Bromsgrove Partnership Board.

- It was noted that outcomes of the consultation with these groups would be reported in the finance reports going for scrutiny to Finance and Budget Working Group (a sub-group of the Overview and Scrutiny Board) in late January / early February. It was agreed by Members as an action that the Finance and Budget Working Group be asked to report (through Overview and Scrutiny) to the Audit, Standards and Governance Committee on the consultation stages and progress.

During the discussion a recommendation as stated in the report was put to the vote and agreed for recommending to the Council, and an additional recommendation was proposed with regards to providing additional updates to the Audit, Standards and Governance Committee with regards to the key deliverables and progress of the Council's audit of accounts process. On being put to the vote it was:

RECOMMENDED

- 1) That the Section 24 Statutory Recommendation is accepted and that Council review the recommendation, endorse the actions included in the management responses which form the rectification process required as per legislation; and
- 2) That Audit, Standards and Governance Committee members are updated on key deliverables, where deemed applicable by the Chairman, the Cabinet Member for Finance and Enabling and the Section 151 Officer, between Committee meetings and that appropriate governance arrangements are put in place to resolve the Council's position.

The meeting closed at 8.19 p.m.

Chairman

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