

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

WEDNESDAY 9TH NOVEMBER 2022, AT 6.00 P.M.

PRESENT: Councillors A. D. Kriss (Vice-Chairman, in the Chair),
A. J. B. Beaumont, C.A. Hotham, J. E. King, P. J. Whittaker,
K. J. Van Der Plank, H. J. Jones and M. Glass

Observers: Councillor K. J. May, Councillor G. N. Denaro,
Councillor P. L. Thomas, Jackson Murray and Neil Preece

Officers: Mr. K. Dicks, Mr P. Carpenter, Ms M. Howell,
Mr. A. Bromage, Mrs J. Gresham and Mr. M. Sliwinski

26/22

APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES

Apologies for absence were received from Councillors R. Jenkins, M. Middleton and C. Spencer with Councillors C. Hotham, H. Jones and M. Glass in attendance as named substitutes respectively. In the absence of the Chairman, Councillor L. Mallett, Councillor A. Kriss chaired the meeting in his capacity as Vice-Chairman of the Committee.

27/22

DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS

There were no Declarations of Interest nor of any Whipping Arrangements.

28/22

SECTION 24 REPORT

Mr. J. Murray, Grant Thornton, presented the Section 24 Report. In doing so, it was explained that, as auditors, Grant Thornton, had powers under the Local Audit and Accountability Act 2014 to make, if necessary, statutory recommendations under Section 24 of the Act. The Committee were informed that following discussions with colleagues it was the judgement of Grant Thornton that the issues outlined within the report warranted statutory recommendations under the Act.

The background to the statutory recommendation was outlined for Members information and it was reported that a new financial ledger system had been implemented in February 2021. However, there had

been significant challenges in respect of the Cash Receipting module in the new system.

Members were reassured that Officers had worked exceptionally hard with the suppliers of the Enterprise Resources Planning (ERP) system, Tech1 and that the Cash Receipting module issues had been resolved and this module was now live. However, despite the progress that had been made in the Cash Receipting module the delays experienced had resulted in the non-delivery of the financial statements for 2019/20. This, in turn, had also impacted on the delivery of the publication of the 2020/21 accounts, which were due by the end of July 2022. As the Council had also fallen significantly behind in the finalisation of the accounts, other Government returns, such as Revenue Outturn and Capital Outturn had also been impacted.

It was highlighted that the Council had recognised these issues and in Q1 of 2022/23, planning had begun for the 2020/21 financial audit, which was when the issues highlighted above had come to the attention of the auditors.

The management response to the statutory recommendation had been provided within the report and Mr. Murray noted that some actions had already been undertaken. He explained that Grant Thornton would continue to liaise with management to understand the actions that the Council had taken and also to review the work that had been undertaken with Tech1. Finally, Grant Thornton would then look at the 2020/21 statements once they had been prepared. It was hoped that the 2021/22 financial statements would follow shortly after.

Once the presentation had concluded, Members were invited to ask questions in respect of the report. It was queried why, given the last meeting of the Audit, Standards and Governance Committee, which had only taken place 3 weeks previously in October 2022, had the Section 24 notice not been highlighted at that point? Grant Thornton explained that once a statutory recommendation was issued, there were very strict timescales and protocols that needed to be followed by the Council and auditors. Because the recommendation had not been issued at that point it would not have been appropriate to raise it at the October meeting. It was clarified that at the October 2022 meeting there had been a detailed update provided to Members regarding the financial ledger system. In addition to this it was confirmed that a Financial Recovery Report had been considered at the Cabinet meeting held on 12th October 2022, where the challenges regarding the financial ledger system had also been raised.

The Interim Section 151 Officer provided a response to Grant Thornton's report and in doing so expressed his disappointment in respect of the statutory recommendation that had been issued by Grant Thornton, however, he understood the reasoning behind it. It was reported that there were three main elements regarding the delay to the preparation of the accounts. Alongside the challenges already highlighted regarding cash receipting, there had been a loss of Council staff, resulting in only 4 members of the Finance team during that financial year remaining. The Committee were informed that there had been two recruitment drives during 2021/22 with the second being more successful. It was noted that the Finance team were now almost up to capacity, with only 4 temporary staff remaining whose retention would be reviewed once the financial accounts had been finalised. It was further noted that the extra workload experienced during Covid-19 and the associated lockdowns, coupled with the limited numbers of finance staff had created a 'perfect storm' which had impacted greatly on the preparation of the 2020/2021 financial statements. Recruitment was highlighted as an issue at a national level and the Interim Section 151 Officer informed Members that 35% of Councils who had submitted their 2020/21 accounts had not had them signed off, at the time of this meeting, due to wider capacity issues across the finance sector. Members were informed that a further meeting would need to be called in December 2022 in order to have the Statement of Accounts 2020/2021 signed off by the Committee. The aim for completion of the draft financial statements for 2020/21 accounts was reported as being at the end of November 2022; and Members were reassured that all members of staff within the Finance Team were working on the accounts in order to meet this deadline. Once these were completed the plan was to commence the financial statements for 2021/2022, and that it was hoped that the Council would be working back to the "normal" financial timetable by the end of the 2022/2023 financial year.

Members expressed their concern as to whether the ERP system was fit for purpose. It was noted, by Officers, that there had been no other issues experienced in any of the other ledgers within the system and were reassured that as the issues had been resolved in respect of the cash receipting module the system was now considered fit for purpose. There was a detailed explanation provided by the Head of Finance regarding how the Cash Receipting module operated and where some of the issues lay. Members were informed that the accounts for Rubicon had been completed earlier in the year, and as a result of this, issues had been rectified. It was therefore hoped that once work had

commenced on the two remaining ledgers it would be from a good grounding.

There were some further questions from Members concerning the timeline once the Statement of Accounts had been signed. There was particular concern expressed regarding whether Grant Thornton would have capacity in looking at the financial statements very soon after receiving them. It was clarified that it was unlikely that the audit of the 2020/2021 accounts would commence prior to Christmas 2022. There was a query regarding the number of Councils audited by Grant Thornton with outstanding audit opinions and whether any had been issued with a statutory recommendation. Mr Murray explained that he did not have those figures however, he agreed to find out the information and circulate to Members.

Further detailed questions were asked by Members which included the following:

- When was the Section 24 issued? – It was confirmed that the Section 24 had been issued on 31st October 2022 and although the timeline for consideration of the statutory recommendation would usually be within one month of issue, in this instance Grant Thornton were comfortable with consideration of the recommendation at the next full Council meeting due to take place on 7th December 2022.
- What were the costs for the implementation of the ERP system so far? – Officers explained that they did not have the information at the meeting and undertook to provide the information to Members.

Officers were also questioned by some Members regarding the transparency of the process that had taken place so far and why Members had not been informed of the severity of the issues within the ERP system earlier. Clarification was provided that the ERP system had not been implemented for the 2019/2020 financial year and due to the delays experienced in the 2019/2020 audit, auditors were not looking at information provided from the new system until Q1 2022/23, which was when the issues were highlighted. It was strongly confirmed that information had not been withheld from Members and that once the issues were identified in Q1 information had been provided accordingly.

There were queries from Members in respect of the reconciliation of information from the old ledger system to the new ledger system. Mr.

Murray confirmed that as Grant Thornton had not yet seen the information for the 2020/2021 accounts, they were unable to confirm whether the reconciliation had been successful. However, it was confirmed by Officers that there had been an exercise of 'back reconciliation' undertaken and these reconciliations had been fully documented. It was confirmed that this information would be provided to the auditors.

In respect of the approval process of the ERP including a Cash Receipting module system, it was highlighted by Officers that the Cabinet approved the business case for the new system in March 2019. In addition to this it was confirmed that there had been a robust tender process undertaken. Clarification was provided by the Interim Section 151 Officer that the previous financial system was outdated, and the cash receipting was being supported by an older version of Civica. Initially it had been agreed that an updated version of the Civica system would be used for cash receipting. However, after the tender process the project team highlighted that Tech1 could offer assurances that a cash receipting solution could be provided as part of the new system.

It was reported that in terms of the accuracy of the information currently within the finance system, most Councils had regular income and expenditure that would be fairly stable month on month. It was noted that throughout Covid-19, that Bromsgrove District Council had experienced some inevitable differences in receipt of income, which had not been seen in previous years. This had caused some backlog in the way that income was received, it was noted that this was a national issue and not specific to Bromsgrove. It was reported that there had been income received as a result of returns made to Government and grant funding received throughout Covid-19. These grants, which were significant, had separate assurance processes which had been adhered to.

The issue of auditor capacity was raised by some Members; however it was confirmed by Mr. Murray that this was not the case and that adequate resources had been allocated as necessary. He stated that, historically, and as had been reported to the Committee, previous audits of the Council had taken a long time to complete. It was clarified that this was not due to the incorrect information being provided but due to the significant time it took for Officers to answer questions that the auditors had in relation to the information. Although the number of audit days was raised by some Members it was clarified that number of days were not allocated to external audit

and that as many days as were needed were taken in order to get the assurance required. Number of days was, however, applicable to Internal Audit. It was clarified that Internal Audit were not involved in the auditing the set-up of the ERP system. It was confirmed however, that Internal Audit had been involved in auditing various areas of the ERP system since its implementation. The Head of Internal Audit Shared Service reported that a risk-based approach was taken when looking at the Internal Audit Plan and that resources were allocated accordingly. It was noted that the number of audit days had been increased when looking at the Core Financials as they were aware that there had been some issues experienced in the cash receipting system. It was confirmed that the Core Financials would be looked at in Q3 2022/23. Any issues that were identified in previous Core Financials audits would be revisited and the outcomes would be reported back to the Committee. This reporting process would also include any audits that had been awarded Limited Assurance at the previous audit.

Risk management was considered by the Committee during the detailed debate. Members were keen to better understand whether the risk of the Council being the first and only Council in the country to use the cash receipting system was highlighted within the business case that had been previously approved. Additional questions were raised in respect of why a dual or back up system was not operated during implementation. It was confirmed that there could not be two ledgers running at the same time and therefore there could be no back up or dual ledger used as this could potentially cause more issues. An additional area of concern raised by some Members was regarding the implementation dates of the new system. Members queried why the implementation had taken place on 8th February 2021, nearing the end of the financial year and not at the end of the financial year 2021. It was explained that the implementation had originally been planned to take place in Q4 of 2021. However, due to the issues highlighted by the project team and the supplier, the decision was taken to delay by approximately 12 weeks which resulted in the date of the new system being implemented on 8th February 2021. This decision also took into account that the existing ledger was nearly out of support by the previous supplier and so the implementation needed to take place on this date.

The issuing of staffing levels was raised again by Members and further discussion was had as to whether there were lessons learned from the large number of staff who had left. In addition to this,

Members questioned if there had been any 'Exit Interviews' carried out with staff who had left and whether during these interviews the ERP system was raised as an issue. Officers confirmed that they did not have the exact information in respect of the number of Exit Interviews carried out for those members of the Finance Team who had left during 2020 until the end of 2021. However, it was confirmed that all Council staff were offered an exit interview, although not all chose to take up the offer. In addition to this, it was noted that potentially the new skills that had been acquired by those members of staff who were trained on the new system were desirable to other employers in the work marketplace and this could have potentially been a reason why more staff than was usual left in a very short space of time.

In concluding the discussion, it was highlighted by some Members that the lack of information provided to them prior to the issuing of the Section 24 notice was not acceptable and that the management response provided in respect of the Section 24 did not include Member consultation. It was stated that Members wished to have more detailed briefings going forward in order to identify and challenge more rapidly and on an ongoing basis. The Chief Executive reiterated that there had been information provided in the Financial Recovery Report and that there would be more regular updates provided to Members and that the Financial Recovery report would be updated to reflect any updates in activity to both Cabinet and the Audit, Standards and Governance Committee.

The Portfolio Holder for Finance and Enabling, Councillor G.N Denaro, was invited to comment and in doing so thanked the Officers for recognising the issues and dealing with them. He expressed disappointment in the issuing of the Section 24 notice, particularly as it was felt that the issues had almost been resolved.

On being put to the vote it was

RECOMMENDED 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.

Mr J. Murray presented the Interim Auditor's Annual Report 2020-21 on behalf of Grant Thornton and in doing so the following was highlighted for Members attention:

- This report was interim and would not be final until an audit opinion could be issued on the financial statements 2020/2021. It was the first time that Committee Members had considered this report in this format. The National Audit Office, who set the code of practice that auditors followed, had updated the format of these types of reports in 2021, specifically highlighting Value for Money arrangements. This new code removed the necessity of provision of an audit opinion and required a commentary which resulted in a more lengthy report than had been considered by the Committee in previous years. Members were informed that the report highlighted 3 key areas, as follows:-
 1. Financial Sustainability
 2. Governance
 3. Improving economy, efficiency and effectiveness

- The report covered arrangements that were in place in the period up to 31st March 2021. Members were reminded that this was a backward look at the 3 key areas, as highlighted above, and that some of the recommendations contained within the report had been discussed earlier in the meeting and actions had already been taken against these recommendations. There were 5 key recommendations and 13 improvement recommendations contained within the report. The 5 key recommendations were in respect of the following:
 1. The Medium Term Financial Plan – this recommendation covered the pressures that the Council was currently facing. It was noted that at the previous Audit, Standards and Governance Committee meeting the Interim Section 151 Officer has provided Members with a detailed update of the Councils' financial pressures as it moved into the next budget round. In addition to this Mr. Murray reiterated that with an uncertain economic climate, the effects of Covid-19 and the cost of living crisis it was a challenging environment. It was confirmed that Grant Thornton was content that Officers had a plan going forward and had considered the significant challenges that the Council faced.

2. Improvement of management of key projects – this recommendation was discussed as part of the previous item in respect of the implementation of the ERP system.
3. Performance Reporting and Monitoring – This recommendation dealt with the reinstatement of Performance Monitoring. Members were informed that there had been no formal Performance reporting to Members throughout the 2020/2021 financial year. It was noted that Members had been able to access the Performance Dashboard but that the information included was not publicly available. Mr Jackson stated that formal performance monitoring had already begun and that the Q1 Performance and Finance report was considered by Cabinet at its meeting held in October. This formal monitoring would continue on a quarterly basis.
4. Risk Management and Risk Monitoring – This recommendation outlined the need for formal risk management reporting through the Audit, Standards and Governance Committee. It was noted that this had already commenced, and the definition of a Corporate Risk had been agreed by Members and this reporting was now considered at each meeting of the Committee.
5. Financial Monitoring – this recommendation was concerned with the lack of formal Financial Monitoring. It was stated that there had been no formal Financial reporting to Members throughout the 2020/2021 financial year. However, it was confirmed that there had been financial monitoring up to the implementation of the new ledger. As noted earlier in the meeting, the impact due to a lack of staff within the Finance team had inevitably impacted in this area in the 2021/22 financial year and now staffing levels had increased this had been reinstated and was now being considered on a quarterly basis starting with the Month 11 2021/22 monitoring report in May 2022, which covered period 11 (February 2022). It was clarified that although the lack of financial monitoring had occurred following the implementation of the new financial system, the auditors had a duty under the code to report any significant weakness identified in a timely way, which was why this particular recommendation was included in the 2020/2021 report. It was reported that these recommendations would be followed up as part of the 2021/2022 Auditor's Annual Report and work on that was expected to commence in January 2023.

Following presentation of the report the Interim Section 151 Officer reiterated the importance of having staffing levels to deliver the Finance Recovery Plan. In addition to this it was reported that it was crucial to deliver the Medium Term Financial Plan 2023/2024 in two tranches. In terms of assurance, Members were informed there had been a number of internal assurance boards, one looking across the back office processes and another which included the 4th Tier managers who would be expected to review projects to ensure the correct people were included at that correct time. Risk Management had been considered by the Committee at the previous two meetings and this would continue going forward in order to embed these processes over the next year.

The Leader of the Council stated that everyone would work hard to fulfil the recommendations as outlined within the report. Additionally, she expressed her thanks to the senior Officers at the Council and all of the Finance Team for addressing the issues in a constructive way. In addition to this, it was reiterated that it was important to keep staffing levels at the correct level. Some Members were keen to better understand the impact that this Section 24 Notice would have on future recruitment and when would the Section 24 Notice process be completed. Mr. Murray explained that the Audit, Standards and Governance Committee would be provided with updates at future meetings. It was suggested that one of the updates to be included on future Committee agendas be Section 24 Notice – Progress report. As mentioned earlier in the meeting all of the recommendations included within the report would be followed up as part of the 2021/2022 Auditor's Annual Report.

Further discussion followed regarding the inclusion of the external stakeholders in the budget setting process going forward. It was explained by Mr Murray that it was good practice to include internal and external stakeholders, which included the public, in order to help understand priorities, areas of focus and investments in certain areas. It was reported by the Interim Section 151 Officer that this area had been picked up in a previous Peer Review and in order to fulfil this a feedback form had been included in the Tranche 1 budget documentation. Furthermore, in terms of the large amount of funding involved in the Levelling Up and UK Shared Prosperity Fund, a Project Board was initiated which would also help to meet this improvement recommendation in terms of public consultation. It was highlighted for Members' attention that there had been approximately £457k of unallocated savings in the

2022/23 budget which had now been allocated through the 2022/23 financial and performance monitoring reports. Although Members found this reassuring there was a feeling that this saving had been a 'quick win' due to the success of the Worcestershire Pension fund; and had there been a more driven effort to access further savings, the Council could have potentially made more savings. The Chief Executive confirmed that the Corporate Management Team were driving extremely hard to increase the savings and a significant amount of the budget deficit had been covered. A considerable challenge that was still unknown was the large rise in inflation and associated pressures, which was an issue faced by all Local Authorities. It was hoped that there would be more clarity provided in this area once the Chancellor had provided his Autumn Statement on 17th November 2022. Members were informed that this was the most challenging landscape for budget setting, that the budget gap would not be deliverable within one year and that difficult decisions would inevitably have to be made.

Some Members expressed real concern at some of the recommendations contained within the report including budget holders' responsibilities, workforce planning and a procurement strategy. It was reiterated by Members that these recommendations must be prioritised and mitigations and adequate communications to Members put in place. Officers provided reassurance that this was being taken very seriously and reiterated that there was already a Financial Recovery Plan in place and steps had already been taken to address this and improvements made in respect of some of the issues outlined within the report. Furthermore, an explanation was provided in respect of the budget holders' responsibilities recommendation, and it was confirmed that the Corporate Management Team took these issues very seriously and that the Interim Section 151 Officer had rolled out a programme for 4th Tier Managers to better understand the role they played in the budget setting process.

It was raised by some Members how savings were identified and whether innovative methods had been employed for the future. In response to this, it was suggested that perhaps these kinds of ideas could be discussed at the Finance and Budget Working Group, and this could potentially be looked at in the future.

On being put to the vote it was

RECOMMENDED that

1. the 5 Key Recommendations and 13 Improvement Recommendations within this report be agreed.
2. Council agree that the Management Actions contained within this report will rectify these issues.

[Following consideration of this item, the meeting was adjourned for 5 minutes].

30/22

AUDIT ASSURANCE OF SAFEGUARDING AND FIRE EVACUATION
(VERBAL UPDATE)

The Chief Executive Officer presented the verbal update in respect of the Audit assurance of Safeguarding and Fire Evacuation. During consideration of this item the following was highlighted for Members' attention:

- This update had been requested at the previous meeting of the Committee. The Corporate Management Team took all Limited and Moderate Assurance Audits extremely seriously and looked to ensure all recommendations were completed as soon as possible.
- In respect of the Safeguarding Audit, it was clarified that this was given a moderate assurance and not a limited assurance as suggested by Members at the previous meeting. In April 2022, it was noted that the Committee received a report updating Members on the status of the Safeguarding Audit and were informed that all actions had been completed. It was planned that a further Safeguarding Audit would be undertaken in 2023-24 and all outcomes of that audit would be reported to the Committee. Members were assured that Safeguarding measures and controls were taken seriously and it was confirmed that the Safeguarding Policy had recently been updated. Safeguarding training had also been rolled out to all Officers across the Authority.
- In terms of Fire Safety, it was again confirmed that the Health and Safety Training Records Audit, which had been undertaken in 2018 had been followed up. A report was presented to the Committee in October 2021 stating that all of the actions had been completed and addressed. However, it was acknowledged that the report did not appear in its entirety in the agenda provided for the October 2021 meeting and therefore this could potentially have caused confusion for Members. It was with this in

mind that the manner in which audits and follow up audits were reported back to the Audit, Standards and Governance Committee would be explored in order to provide greater clarity for Members in the future. In addition to this, it was suggested that it may be worthwhile, should any audits be given Limited Assurance in the future, that a follow-up audit would be undertaken after 12 months in order to understand the status of the recommendations.

The Head of Internal Audit Shared Service also provided reassurance to Members that all recommendations in respect of the two audits had been completed and implementation of the recommendations had been evidenced by Officers.

Members were pleased that Safeguarding was being taken seriously, however concerns were expressed in respect of the public meetings and that robust measures in line with counter-terrorism guidelines were in place at these meetings.

Some Members queried if Safeguarding training was compulsory for Members. It was noted that compulsory training was difficult to enforce amongst Members, but that some training had taken place online. The Chief Executive reported that compulsory training would be considered at the Member Development Steering Group. In addition to this, it was reported that it would be discussed as part of the New Member Induction Programme which was currently being planned.

RESOLVED that the Verbal Update on Audit Assurance of Safeguarding and Fire Evacuation be noted.

31/22

ANNUAL APPOINTMENT OF RISK CHAMPION

There were no nominations received for the role of the Risk Champion and therefore it was agreed that this item be considered at the next meeting of the Committee.

32/22

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

As discussed earlier in the meeting the Interim Section 151 Officer informed Members there would be an extraordinary meeting of the Committee arranged in mid-December 2022 in order to sign off the draft Statement of Accounts 2019/2022.

It was noted that, the Chairman had raised the queries in respect of Safeguarding and Health and Safety Audits at the last meeting of the Committee, and a request was made by Councillor. A. Kriss, Vice-Chairman regarding the possibility of attendance by the Chief Executive at the next meeting of the Committee, in order to address any outstanding queries that the Chairman may still have. The Chief Executive confirmed that, subject to other commitments, he was happy to attend.

RESOLVED that the contents of the Audit, Standards and Governance Committee's Work Programme be noted.

The meeting closed at 8.05 p.m.

Chairman