



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

WEDNESDAY 9TH NOVEMBER 2022

AT 6.00 P.M.

PARKSIDE SUITE - PARKSIDE

MEMBERS: Councillors L. C. R. Mallett (Chairman), P. J. Whittaker, A. J. B. Beaumont, R. E. Jenkins, J. E. King, A. D. Kriss (Vice-Chairman), M. Middleton, C. J. Spencer and K. J. Van Der Plank

AGENDA

1. **Apologies for Absence and Named Substitutes**
2. **Declarations of Interest and Whipping Arrangements**

To invite Councillors to declare any Disclosable Pecuniary interests or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.
3. **Section 24 Report (Pages 1 - 10)**
4. **Interim Auditor's Annual Report 2020-21 (Pages 11 - 56)**
5. **Audit Assurance of Safeguarding and Fire Evacuation (Verbal Update)**
6. **Annual Appointment of Risk Champion**
7. **Audit, Standards and Governance Committee Work Programme (Pages 57 - 58)**

Parkside
Market Street

K. DICKS
Chief Executive

BROMSGROVE
Worcestershire
B61 8DA

1st November 2022

**If you have any queries on this Agenda please contact
Mat Sliwinski**

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SECTION 24 REPORT

Relevant Portfolio Holder	Councillor Geoff Denaro, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted	Yes
Relevant Head of Service	Pete Carpenter
Report Author	Job Title: Interim Director of Finance email:peter.carpenter@bromsgroveandredditch.gov.uk Contact Tel: 0152764252
Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	All
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. SUMMARY OF PROPOSALS

- 1.1 The Council has received a Statutory Recommendation from our External Auditors Grant Thornton with key reason being the non-delivery of the 2020/21 financial statements is a **key reason**. This report sets out the reason for the Statutory Recommendation, and the process the Council now has to follow to rectify that position.

2. RECOMMENDATIONS

Audit Standards and Governance Committee are asked to Recommend to Cabinet and Council that:

- 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.

3. Background

Introduction

- 3.1 The Council has set out in a number of meetings during 2022 the issues it has encountered in the implementation of a new financial system in February 2021 and its knock-on effect in terms of staff retention, delivery of the 2020/21 Accounts, delivery of 2021/22 in year monitoring, delivery of Government Returns being key items. This position has been
- Discussed at Audit Standards and Governance Committees in July and October as part of the Internal Audit Report items.

- Discussed in Cabinet as Part of the Finance Improvement Recovery Report on the 12th October.
 - Discussed at Council on the 17th October as part of the as part of the Portfolio Holder for Finance and Governance's annual report.
- 3.2 The majority of these issues have been resolved or are in the process of being resolved. This includes the recruitment of a new finance team, delivery of monitoring in 2022/23, and compliance reporting. However, the Council still have not been able to complete the 2020/21 Statutory Accounts. This has been due to issues in rectifying issues on the cash receipting module of its new finance system. This also impacts key reconciliations.
- 3.3 The external Auditors have noted progress in their 2020/21 Annual Auditors Report which is also coming to this Committee for review. However, they have concluded that it is appropriate for them to use their powers to make written recommendations under section 24 of the Act, with the key reason being the non-delivery of the 2020/21 Statutory Accounts. Further details are set out in the attached report
- 3.4 Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:
- The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council. This will take place at the Council meeting on the 7th December
 - At that public meeting the Council must decide
 - whether the recommendations are to be accepted; and
 - what, if any, action to take in response to these recommendations.
 - Schedule 7 specifies the meeting publication requirements that the Council must comply with.
- 3.5 The report must come to Audit, Standards and Governance Committee initially for their discussion, and their views to then be fed into Council in December.
- 3.6 The External Auditors Report sets out that Management state that the proposed resolution is now in the final phase of rectification, with regression testing of the solution key to its implementation. With the Cash Receipting fix implemented, the Council are aiming to have a draft set of accounts ready for the end of November.
- 3.7 Page 4 of the External Audit Report sets out the main issues and the Council's Management Responses to each of those issues.

4. **IMPLICATIONS**

Financial Implications

4.1 Financial implications are set out in section 3.

Legal Implications

4.2 This is set out in section 3.4 above.

Service / Operational Implications

4.3 Non-Delivery of the 2020/21 Accounts is a fundamental deficiency and this is part of the Corporate Risk Register and impacts all service areas directly and indirectly.

Customer / Equalities and Diversity Implications

4.4 There are none of these within this report.

5. **RISK MANAGEMENT**

5.1 Non-Delivery of the 2020/21 Accounts is a fundamental deficiency and this is part of the Corporate Risk Register.

6. **APPENDICES**

Appendix A – Bromsgrove District Council Section 24 Statutory Recommendation – Grant Thornton.

6. **BACKGROUND PAPERS**

None

7. **KEY**

None

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Bromsgrove District Council

Section 24 Statutory Recommendations

31 October 2022

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Bromsgrove District Council
Parkside
Market Street
Bromsgrove
Worcestershire
B61 8DA

31 October 2022

Dear Sirs

[Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014](#)

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements relating to issues with financial systems which further impact on key statutory returns and related financial governance. This non-delivery of the 2020/21 financial statements is a key reason for our S24 Recommendation. Further details are set out in the attached report.

We will also consider these issues as part of our work on the Council's value for money arrangements and its financial statements, once produced.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:

The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council.

At that public meeting the Council must decide

- whether the recommendations are to be accepted; and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies the meeting publication requirements that the Council must comply with.

[Jackson Murray](#)

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Background to the recommendations

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements relating to issues with financial systems which further impact on key statutory returns and related financial governance.

Financial systems and reporting

The Council has historically had difficulties producing information to support the financial statements audits, resulting in external audit recommendations and late approval of audited accounts. For the 2019/20 financial year the draft financial statements were not published by the statutory deadline of 31 August 2020, instead being published 18 September 2020. The date for publication of audited financial statements of 30 November 2020 was also missed, with the audit opinion not issued until eleven months after this date on 5 October 2021.

One of the cited reasons for the issues faced in previous audits was the Council's aging financial ledger system which could not produce system reports to support key accounting entries and did not integrate with other key financial and Council systems, amongst other issues. In June 2019 the Council approved a contract for the implementation of a new financial ledger system to be developed by TechnologyOne. This Enterprise Resource Planning (ERP) system would integrate financial, human resources and payroll and supply chain information into a single electronic system.

The implementation date of the new system was 8 February 2021. Following our interim audit procedures earlier in the year we became aware of examples of mis-coding issues in the new ledger. The Council have now produced evidence that the closing balances from the old ledger system were completely and accurately transferred to the new system in February 2021, but we are yet to receive or verify this. This assurance should have been provided within 1 month of Go Live as standard.

Since the implementation of the system there have been significant challenges, particularly in respect of the cash receipting module. Following its introduction, the system has been posting cash transactions to suspense accounts, receipts in transit and inter-company balances. This makes a number of routine and key control activities challenging, including bank and control account reconciliations and providing meaningful budget monitoring information to managers and Members. The completion of bank and control account reconciliations is key to ensuring that potential areas of error or fraud are identified and rectified in a timely manner. The Council continues to work with the system supplier to attempt to reach a solution to this issue, and as such bank and control accounts have not been routinely undertaken. Management state that the proposed resolution is now in the final phase of rectification, with regression testing of the solution key to its implementation. Lack of routine reconciliations represents a significant failure in the Council's financial governance.

Initially, the impact of implementing a new system during COVID-19 restrictions, and the loss during the 2021/22 financial year of the majority of staff involved in the implementation of the new financial ledger system which led to a lack of financial capacity resulted in work-arounds continuing to be used rather than the software supplier's system fixes being tested and implemented. The Cash Receipting fixes were still being developed at that time and are only in final testing at the moment. More recently, following the recruitment of permanent finance team members, the Council has been working with TechnologyOne on a solution to cash receipting and has held regular meetings with them. The Council recognises that without resolution of the financial ledger challenges it cannot move forward and close its 2020/21 financial statements. This non-delivery of the 2020/21 financial statements is a key reason for our S24 Recommendation.

As the Council has not been able to finalise the 2020/21 accounts there are knock on implications. The Council has now also missed the draft publication deadline for the 2021/22 accounts of 31 July 2022 and cannot finalise other key Government returns, with the Revenue Outturn (RO) and Capital Outturn (CO) submissions for 2020/21 paused awaiting closure of the 2020/21 accounts.

The Council has recognised these issues and has reported updates and mitigations steps through:

- Audit, Governance and Standards Committee in July 2022 – via the Internal Audit Reports;
- The Finance Recovery Report to Cabinet in October 2022; and
- The Cabinet Members Update reported to Council in October 2022.

In conclusion, the implementation of the new financial ledger in February 2021 was not effective, given the continued challenges with cash receipting and as evidenced by the fact that the Council continue to attempt to resolve significant issues with the system some 20 months after the implementation date. This has led to key elements of financial governance not being completed which increase the risk of incorrect, irregular or fraudulent transactions or events occurring. It also means that the Council has now fallen significantly behind in respect of key statutory financial reporting deadlines. Our statutory recommendation in relation to these matters are set out on page 4 of this report.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Financial systems and governance	<p>The Council cannot yet produce its 2020/21 draft statement of accounts with long-standing issues with its new ledger system in relation to cash receipting requiring resolution. The Council must ensure that arrangements allow for the successful implementation of cash receipting within its ERP system to allow key elements of financial governance and compliance to be undertaken routinely and in a timely manner. In order to achieve this the Council should:</p> <ul style="list-style-type: none"> • ensure the Council has access to the necessary knowledge and expertise to resolve the remaining key issues with the ERP system in a timely manner to provide management with sufficient assurance over the completeness and veracity of the data included within the system; • undertake appropriate testing of the fixes and ensure that appropriate sign-off of these is received prior to running them on live system data; and • ensure budget holders and other relevant officers possess the skills and knowledge to appropriately use the ERP system as intended, including relevant training and updates to key documentation and process manuals. <p>Once system issues are properly resolved, the Council must:</p> <ul style="list-style-type: none"> • undertake key control activities such as bank and control account reconciliations on a monthly basis and ensure that these are kept up to date; • produce the 2020/21 and 2021/22 draft financial statements, along with high quality supporting working papers; • conclude the 2020/21 and 2021/22 RO and CO submissions, and other key Government returns including Whole of Government Accounts; and • ensure timely reporting of budget outturns and report publicly on in-year financial monitoring, including updates on the capital programme and savings scheme achievement. 	<ul style="list-style-type: none"> • The Finance Recovery Plan which is a wider schedule of finance deliverables – monitoring, delivery of returns, budget, reported to CMT on a Monthly basis, and reviewed by the Sr Finance Team on a weekly basis. • Weekly meetings held both internally on reconciliation and associated issues. Monthly ERP Board is in place. Two weekly meetings on utilisation of assets. • Cash Receipting issues escalated on Tech1 side to worldwide Head of Local Government (met 6 July 2022) for resolution. Now in final phase of testing before solution can be transferred to the live environment. • Council is a first and only Council user for cash receipting and there is limited Tech1 expertise to resolve ongoing design issues which require scheduling. • System Tech1 expertise commissioned to fully document the solution in October to aid full understanding. • Documentation a plan to correct 20/21 and 21/22 entries which will be reviewed by Internal Audit before being presented to External Audit. • Handovers have taken place to new establishment Staff who were on-boarded up to August 22 in preparation for delivery of 20/21 accounts and user training.. • Financial Governance is being reviewed as part of Finance Recovery plan and is basis for revised training and responsibilities being implemented in the Autumn. • User Guides and manuals being redrafted for Autumn training launches. • Tech1 User Group set up in September to assess documentation and support across the Sector. • Tech1 has the Tech1 University which is comprehensive but not site specific to base documentation on. Staff have access to this to deliver updated guides and manuals. • Staff in place to undertake bank rec but dependent on final cash receipting fix. Cannot fully start bank reconciliation on system as it is presently causing more transactions to be produced. • Other monthly controls set up for the end of August. • Internal Audit Recommendations will be added to the Recovery plan • Members have been updated on issues through Audit Committee, Cabinet and the Cabinet Member update to Council during 2022.

Impact on Value for Money reporting

We began to discuss our finding and concerns with Officers in February 2022 after the commencement of our 2020/21 interim audit visit identified the issues reported with the financial ledger system and its related governance, although our reporting of these issues was initially paused by the pre-election period at Redditch Borough Council to May 2022.

After raising these issues with management, it is pleasing to note that they began to resolve them from March 2022, as per the interim Head of Finance and Customer Service's recovery plan, although this plan should have been set up sooner to mitigate issues that had arisen.

We will consider the impact of the issue through our Value for Money reporting in 2020/21 and subsequent years and this work is detailed in our Interim Auditor's Annual Report for 2020/21.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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INTERIM AUDITORS ANNUAL REPORT ON BROMSGROVE DISTRICT COUNCIL 2020-21

Relevant Portfolio Holder	Councillor Geoff Denaro, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted	Yes
Relevant Head of Service	Pete Carpenter
Report Author	Job Title: Interim Director of Finance email:peter.carpenter@bromsgroveandredditch.gov.uk Contact Tel: 0152764252
Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	All
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. **SUMMARY OF PROPOSALS**

- 1.1 The Interim Auditor’s Annual Report 2020/21 sets out the auditor’s view on controls within the organisation. Apart from the Statutory Recommendation, for which there is a separate Report, there are 5 Key and 13 Improvement Recommendations in this report. The Councils responses and progress in delivery of these Recommendations are set out in the Auditors Report.

2. **RECOMMENDATIONS**

Audit Standards and Governance Committee are asked to Recommend to Cabinet and Council that:

- 1 They agree with the 5 Key Recommendations and 13 Improvement Recommendations within this report.
- 2 They agree with the Management Actions contained within this report will rectify these issues.
- 3 They highlight any other actions they deem necessary to rectify these issues.

3. **Background**

Introduction

- 3.1 The External Auditors at the meeting of Audit Standards and Governance Committee on the 12 April 2022 set out their Audit Plan and the revised approach to Value for Money Assessments. This included the three main changes arising from the National Audit Office’s (NAO) new approach.

- 3.2 This report is the interim auditors annual report. It will not be able to be issued in final until the 2020/21 financial statements are produced and have been audited. Grant Thornton have issued a Statutory Recommendation which is included as a separate report in this agenda. This report sets out five key recommendations and thirteen improvement recommendations.
- 3.3 This report covers the arrangements that the Council had in place up to the 31st March 2021. The Auditors began their work in February and are pleased to see that officers have responded positively to the ongoing discussions and have begun to address many of the key concerns. The Auditors note that the changes made will still need to be embedded.
- 3.4 The report notes that the audit opinion on the 2019/20 Statements was not provided until the 5th October 2021.

Key Recommendations

- 3.5 There are five Key recommendations which are set out on pages 7 to 11 of the Auditors Report. These recommendations are:
1. The Council needs to ensure that the Medium-term Financial Plan presented to Members is completely transparent regarding the financial challenge and that any savings schemes included are fully worked up and approved by Members in advance.
 2. The Council needs to improve management of key projects, such as the financial ledger implementation, to ensure that expected benefits are realised. As part of this the Council needs to undertake a comprehensive review of the financial ledger implementation and ensure lessons are learned for future key projects.
 3. The Council should review and implement effective governance arrangements in respect of performance monitoring to allow Members to make informed decisions. In order to achieve this the Council should reinstate public reporting on performance, linking this to the Council Plan and the related strategic objectives, allowing Members to scrutinise performance. This should be done at least twice per year.
 4. The Council should review and implement effective governance arrangements in respect of risk monitoring to allow Members to make informed decisions. In order to achieve this the Council should make risk management reporting a standing item on the Audit, Standards & Governance Committee agenda, with Members considering the Corporate Risk Register and Risk Management arrangements in an appropriate forum.
 5. The Council should ensure timely and relevant financial monitoring reporting is undertaken and presented to the appropriate public forum.
- 3.6 In terms of these five key recommendations, the data on pages 7-11 set out what these are Key Recommendations and the impact they have, the auditors Judgement and summary findings, followed by the Management Response.

- 3.7 The Council view is for these five Key Recommendations that management actions are in place to mitigate all of them including:
- The staffing up on the finance team to give the correct capacity for delivery of Recommendations.
 - Delivering the 2023/24 MTFP in two Tranches, with the first already in the public environment since the 26 October.
 - Having a monthly Cross Council assurance review meeting assessing priorities and delivery of other cross cutting meetings.
 - Integrating Performance and Financial monitoring in one report. The Quarter 1 combined report was presented to Cabinet on the 12th October. Q2 will be presented on the 23rd November.
 - Risk Monitoring Governance has been updated and reporting through to Audit, Standards and Governance Committee on a quarterly basis.

Improvement Recommendations

- 3.8 The Auditors also comment on the Councils arrangements to secure economy, efficiency, and effectiveness in its use of resources. The majority of these points are included in the Improvement Recommendations on pages 21-33 of the Auditors Report:
1. The Medium-Term Financial Plan / Budget setting report should be linked to specific actions which are set out in the Council Plan to make it clearer how investments in services will help to achieve the eight key priorities as set out in the Council Plan.
 2. The Council needs to improve capital budgeting and ensure that the capital programme is delivered as planned.
 3. The Council should develop a workforce plan / strategy and ensure that this aligns to its financial plans.
 4. Financial plans presented to Members should include better explanation around the key risks and assumptions as well as sensitivity analysis and modelling different scenarios.
 5. The Council should work with Internal Audit to ensure that proactive fraud prevention work is included in the audit plan, and the work and outcomes are reported to the Audit, Standards & Governance Committee.
 6. The Council needs to ensure that internal and external stakeholders, including service users, are engaged and consulted in the budget setting processes, and that this is documented and reported.
 7. The Council needs to develop quarterly financial monitoring reports so that performance information is included in order to better explain variances and the financial impact of service decisions.
 8. The Council needs to ensure that budget holders are actively involved in budget monitoring and are aware that it is a key part of their role.
 9. The Council need to put in place arrangements to provide independent assurance over the accuracy on in-year financial reporting and performance information.

10. The Council needs to significantly enhance the use of benchmarking costs and performance against other similar bodies.
11. The Council needs to ensure that the recommendations made by the LGA Corporate Peer Challenge in January 2018 and February 2020 are addressed and that it then further improves by learning from exemplar councils across the country.
12. The Council should ensure that it has an up-to-date procurement strategy and that this, and any other key policies and strategies, are routinely reviewed and updated.
13. The Council needs to engage and consult with key stakeholders, where appropriate, to determine local priorities for resources or opportunities for savings.

3.9 As with the Key Recommendations, the Councils view it as a priority that it has or is in the process of integrating these recommendations into normal processing.

4. **IMPLICATIONS**

Financial Implications

4.1 Financial implications are set out in section 3.

Legal Implications

4.2 The Council must comply with the Recommendations set out in the Interim Auditors Report and the Management Actions set out how this will be delivered.

Service / Operational Implications

4.3 Delivery of the five Key Recommendations and the thirteen Improvement Recommendations will impact several key processes. These changes form part of the financial recovery plan.

Customer / Equalities and Diversity Implications

4.4 There are none of these within this report.

5. **RISK MANAGEMENT**

5.1 Non-delivery of the 2020/21 Accounts is a fundamental deficiency and this is part of the Corporate Risk Register as it the delivery of a Balanced Budget.

Audit, Standards and Governance Committee

9th November 2022

6. **APPENDICES**

Appendix A – Interim Auditor’s Annual Report on Bromsgrove District Council
– Grant Thornton.

6. **BACKGROUND PAPERS**

None

7. **KEY**

None

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Interim Auditor's Annual Report on Bromsgrove District Council

2020-21

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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Agenda Item 4

Executive summary



Value for money arrangements and key recommendations

We presented our Audit Plan to the Audit, Standards & Governance Committee on 12 April 2022. In this we set out the revised approach to Value for Money work for 2020/21 onwards. We noted there are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach; and

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The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

We reported at that time that we had identified four risks of significant weaknesses from our initial planning work. We have continued our review of your arrangements and are now able to issue our interim auditor's annual report. We are unable to issue this in final until the 2020/21 financial statements are produced by management, and we have audited these.

We have issued a Statutory Recommendation under section 24 schedule 7 of the Local Audit and Accountability Act 2014 and this is included in a separate report issued 31 October 2022. We have also made five key recommendations and thirteen improvement recommendations.

Summary

This report covers the arrangements that the Council had in place up to 31 March 2021. There are significant issues raised. We began our work in February 2021 and have discussed the issues with senior officers regularly in the period to date. These meetings have involved the Chief Executive, both Executive Directors of Resources, and the previous Head of Finance. We are pleased to see that officers have responded positively to our discussions and the issues raised and have begun to address many of our key concerns. The changes made still need to be embedded and our work in subsequent years will consider the progress made.



Financial sustainability

The Council is financially sustainable in the short term but needs to develop fully worked up savings and income generation schemes which are approved by Members, and then incorporated into the Medium-Term Financial Plan (MTFP). The MTFP presented to Cabinet in February 2021 shows use of reserves of £638k / £1,200k / £1,472k in the three years from 2021/22 onwards. At that stage general fund reserves are forecast to be £1,735k, which is broadly only sufficient for one year. Whilst the Council has some savings / income generation schemes in place, it is still heavily reliant on the use of reserves, to a point where it is not sustainable in the longer term under the current forecasts. We consider this to be a significant weakness and have raised a key recommendation.

The Council also needs to ensure arrangements are in place to keep the Council's financial plans under review and reported to Members. There was quarterly finance monitoring reporting up to Q3 of 2020/21, presented to Cabinet on 31 March 2021. Arrangements were therefore appropriate for 2020/21. After that, the next finance report was the 2020/21 Outturn Report on 24 November 2021. For 2021/22 Cabinet was presented with a Month 11 finance report on 3 May 2022. This represents a significant weakness in arrangements for 2021/22 as it is unclear what budget monitoring has been happening and there has been inadequate reporting to Members of the financial position. While arrangements were adequate up to 31 March 2021, the absence of regular financial reporting since then is a factor we will consider in our work for 2021/22 and we have identified a key recommendation in respect of 2021/22 arrangements in this report, in accordance with the NAO Code of Audit Practice.



Governance

Since October 2019 there have not been any formal risk management update reports to Members, nor has a corporate risk register been presented. Members are therefore not provided with appropriate assurance over effective risk management and whether the issues previously raised by Internal Audit and Zurich Municipal have been addressed. We have raised a key recommendation in relation to this. We note that risk management reporting has recommenced from July 2022.

Our 2019/20 Annual Audit Letter, presented on 15 November 2021, commented that our opinion on the 2019/20 financial statements was not provided until 5 October 2021. We also noted that the 2020/21 financial statements should have been prepared by 31 July 2021. The 2020/21 draft financial statements have still yet to be produced, and the deadlines for other key Government financial returns have also passed. Challenges relating to cash receipting continue to exist with the Council's new financial ledger that was implemented in February 2021, and we have raised a statutory recommendation relating to this.

Executive summary



Improving economy, efficiency and effectiveness

The last performance management report to Cabinet was 30 May 2018. This pre-dates the COVID-19 pandemic by nearly two years, and it is now four years since the last report to Cabinet. Decision makers were therefore unable to monitor the Council's performance and identify areas for improvement. We note that from September 2022, Cabinet were provided a quarterly integrated Financial and Performance Report. However, for 2020/21 this is a significant weakness and we have raised a key recommendation regarding this issue.

During this period, the Council did have a corporate performance dashboard which was available to Members. Usage data statistics log on a rolling 9-month basis and so we are no longer able to evidence usage statistics during the period under review. The dashboard is being replaced with a Power BI based application and the corporate management team currently have access to this new version. We are informed that Member access will be available by the end of 2022.

The Council could improve its arrangements in respect of internal and external engagement and benchmarking with other councils.

The Council needs to learn the lessons from the very significant challenges caused by the financial ledger implementation and ensure mistakes are not repeated. The expected benefits have not yet been realised, and the Council has incurred extra costs in trying to resolve issues. This has also had a significant impact on the timeliness of internal and external financial reporting and returns to central government as we have previously reported. We have raised a key recommendation in respect of benefits realisation and post implementation review of this project.



Opinion on the financial statements

Our 2019/20 Annual Audit Letter, presented on 15 November 2021, commented that our opinion on the 2019/20 financial statements was not provided until 5 October 2021. We also noted that the 2020/21 financial statements should have been prepared by 31 July 2021. After several delays and postponements, we currently expect them by mid November 2022. This represents a significant weakness and is covered by our Statutory Recommendation.

We have been able to undertake most of initial planning and risk assessment for our 2020/21 financial statements audit and were able to present our audit plan to the Audit, Standards & Governance Committee on 12 April 2022.

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

On 31 October 2022 we made a Statutory Recommendation in respect of financial systems and governance. This was included in our report entitled "Bromsgrove District Council - Section 24 Statutory Recommendations" and the recommendation is replicated on page 6.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make an application to the Court.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice.

Judicial review

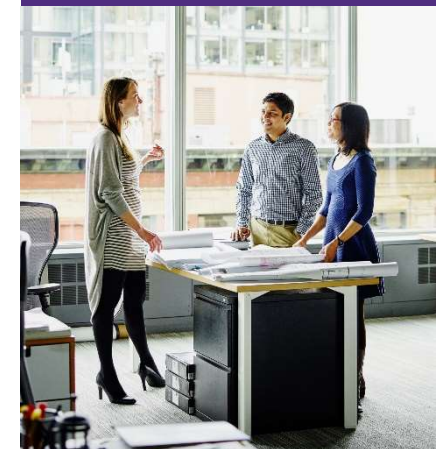
Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review.

Recommendation made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation
Financial systems and governance	<p>The Council cannot yet produce its 2020/21 draft statement of accounts with long-standing issues with its new ledger system in relation to cash receipting requiring resolution. The Council must ensure that arrangements allow for the successful implementation of cash receipting within its ERP system to allow key elements of financial governance and compliance to be undertaken routinely and in a timely manner. In order to achieve this the Council should:</p> <ul style="list-style-type: none"> • ensure the Council has access to the necessary knowledge and expertise to resolve the remaining key issues with the ERP system in a timely manner to provide management with sufficient assurance over the completeness and veracity of the data included within the system; • undertake appropriate testing of the fixes and ensure that appropriate sign-off of these is received prior to running them on live system data; and • ensure budget holders and other relevant officers possess the skills and knowledge to appropriately use the ERP system as intended, including relevant training and updates to key documentation and process manuals. <p>Once system issues are properly resolved, the Council must:</p> <ul style="list-style-type: none"> • undertake key control activities such as bank and control account reconciliations on a monthly basis and ensure that these are kept up to date; • produce the 2020/21 and 2021/22 draft financial statements, along with high quality supporting working papers; • conclude the 2020/21 and 2021/22 RO and CO submissions, and other key Government returns including Whole of Government Accounts; and • ensure timely reporting of budget outturns and report publicly on in-year financial monitoring, including updates on the capital programme and savings scheme achievement.

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendations



Recommendation 1

The Council needs to ensure that the Medium-Term Financial Plan presented to Members is completely transparent regarding the financial challenge and that any savings schemes included are fully worked up and approved by Members in advance.

Why/impact

The Medium-Term Financial Plan (MTFP) presented to Cabinet on 17 February 2021, covering the period 2021/22 - 2024/25, includes savings which are not fully worked up, based on robust evidence, and approved by Members. This masks the financial situation and could be misleading. In addition to this, the MTFP shows use of reserves of £638k / £1,200k / £1,472k. At that stage general fund reserves are forecast to be £1,735k, which is broadly only sufficient for one year. While the Council has some savings and income generation schemes in place, it is still heavily reliant on the use of reserves, to a point where it is not sustainable in the longer term. Savings and income generation schemes represent only around 1/3 of the overall requirement, with no robust plans to address the balance.

Auditor judgement

This represents a significant weakness in arrangements. Without transparent reporting of the underlying financial position and the challenges faced it is not possible for Members to fully understand the financial challenge and work with officers to ensure the Council is financially sustainable in the long term.

Summary findings

While the Council has adequate reserves in the short term it needs to take action to ensure long term financial sustainability.

Management comments

- Unallocated savings amount from the existing MTFP of £478k has been highlighted in the Q1 monitoring that went to Cabinet in September. Decision has been taken to apply these amounts to vacancies at Q2 to resolve the issue. This will be reflected in the Q2 monitoring which will be presented to Cabinet in November.
- 2023/24 MTFP will be delivered in 2 Tranches. As set out in the existing MTFP there is a deficit of £1,588k to close in 2023/24 rising to £1,623k in 2025/26. Tranche 1 documentation which will be presented to Cabinet on the 26th sets out how could be bridged without the use of Reserves. Fuller detail is given on underlying assumptions and a Savings Proposal Document gives the required transparency and allocation to the correct budgets.
- Given the present financial crisis, and including inflation running at over 10%, with utilities even higher, the Tranche 1 Reports have a draft Robustness statement setting out the viability of the budget at this time as the projected Gap with present inflationary and utility pressures would extinguish reserves within 2 years..
- 20/21 forecast outturn report presented to Cabinet in November 2021.
- 21/22 P11 set out that revenue would be delivered within budget, confirming the savings built into the budget were anticipated to be delivered in year.

The range of recommendations that external auditors can make is explained in Appendix C.





Recommendation 2

The Council needs to improve management of key projects, such as the financial ledger implementation, to ensure that expected benefits are realised. As part of this the Council needs to undertake a comprehensive review of the financial ledger implementation and ensure lessons are learned for future key projects.

Why/impact

In June 2019 the Council approved a contract for the implementation of a new financial ledger system to be developed by TechnologyOne. This Enterprise Resource Planning (ERP) system would integrate financial, human resources and payroll and supply chain information in a single electronic system. Implementation of the new system was 8 February 2021. There still remain significant issues with the cash receipting part of the system, which is not functioning as intended some 19 months after implementation.

The Council need to understand and document learning points from this implementation for application on other projects so that a similar situation does not arise in the future.

Auditor judgement

The expected benefits have not yet been realised. Worse, the Council has incurred significant additional cost and time in resolving issues that could have been addressed at the time. This has had a knock-on effect in other areas such as reports and returns to government and internal and external financial reporting.

Summary findings

Officers are working hard and investing significant time and money into resolving the issues created by the financial ledger implantation not going as planned. It is crucial that lessons are learned to ensure there are no repeat issues with future projects.

Management comments

- The Council has set up a Back Office Working Group which meets on a 2 weekly basis. Part of this groups remit is to “gatekeep” major projects to ensure the correct resources are allocated to projects up front and that there is clarity if an initiative cannot be resourced and this is linked to benefits realisation. This also applies to ongoing contract management.
- A Level 4 Group, which is a sub Group of CMT, now meets on a 2 weekly basis. Part of the remit of this group, which is cross Council, is to future scan for new “projects” and again ensure the right officers/expertise is involved from initiation.
- The present MTFP has assessed projects and deliverability.
- Key Council projects are reported to CMT on a Quarterly basis for review
- The present CIVICA implementation has taken on board learning points around interfaces and reconciliations from the ERP implementation with significant Finance input to ensure full system integration to Tech1 and the Benefits system.
- That a shortcoming of the ERP implementation was that it was not fully documented at the time of implementation – full documentation of the system is now being addressed through a third party
- The ERP was implemented in a time of restrictions due to C-19. A key learning point has been the limitations of remote working on a major implementation and the effects on staff – most of whom have left the Authority.
- A full post implementation review will take place once the system moves to steady state.

The range of recommendations that external auditors can make is explained in Appendix C.





Recommendation 3

The Council should review and implement effective governance arrangements in respect of performance monitoring to allow Members to make informed decisions. In order to achieve this the Council should reinstate public reporting on performance, linking this to the Council Plan and the related strategic objectives, allowing Members to scrutinise performance. This should be done at least twice per year.

Why/impact

The last performance management report to Cabinet was 30 May 2018. This pre-dates the COVID-19 pandemic by nearly two years. In this time, a performance dashboard was available to Members via the portal, although actual usage can no longer be evidenced as the data is logged as a 9-month rolling dataset. Decision makers are therefore unable to publicly monitor the Council's performance and identify areas for improvement. We note that from September 2022, Cabinet were provided a quarterly integrated Financial and Performance Report. However, for 2020/21 this is a significant weakness.

Auditor judgement

It is essential that Members are presented with timely, accurate and transparent performance reports as these, alongside financial and risk management reporting, are the pillars of basic governance and informed decision making.

Summary findings

It is pleasing to note that performance reporting has recommenced from September 2022. As our report relates to the arrangements in place during 2020/21 this is still reported as a significant weakness in that year.

Management comments

- During this period the council did have a corporate performance dashboard which was available to Members. This is now being replaced with a Power BI based application. The corporate management team currently have access to this new application. Member access will be available by the end of 2022
- The Q1 2022/23 Finance and Performance Monitoring Report was presented to Members in September. This has been reviewed by the Budget Working Group in September.
- CMT reviews performance data on a monthly basis as part of its monthly assurance meeting
- The Q2 Finance and Performance Monitoring Report will be presented to Cabinet in November.

The range of recommendations that external auditors can make is explained in Appendix C.





Recommendation 4

The Council should review and implement effective governance arrangements in respect of risk monitoring to allow Members to make informed decisions. In order to achieve this the Council should make risk management reporting a standing item on the Audit, Standards & Governance Committee agenda, with Members considering the Corporate Risk Register and Risk Management arrangements in an appropriate forum.

Why/impact

An Internal Audit report from June 2019 identified significant weaknesses in risk management arrangements. The Council engaged external experts (Zurich Municipal) to build on this report, and reported the findings to the Audit, Standards & Governance Committee in October 2019. Since that date although there have not been any formal update reports to Members, nor has a corporate risk register been presented, there has been informal reporting to Audit Committee by Member Risk Champions. Members are therefore not provided with appropriate assurance over effective risk management and whether the issues raised by Internal Audit and Zurich Municipal have been addressed.

Auditor judgement

It is essential that Members are presented with timely, accurate and transparent risk management reports as these, alongside financial and performance reporting, are the pillars of basic governance and informed decision making.

Summary findings

It is pleasing to note that risk management reporting has recommenced from July 2022. As our report relates to the arrangements in place during 2020/21 this is still reported as a significant weakness in that year.

Management comments

- Risk Management was relaunched in April and went to both Cabinet and Audit Committees in July 2022 as part of a quarterly monitoring regime.
- An updated Risk Approach agreed by CMT in April 2022.
- Risk data is reviewed monthly by Departmental Management Teams, quarterly by a Council wide officer risk board before being presented to CMT as part of the Assurance meeting.
- The Risk Management report to the 21st September will be presented to both Cabinet and Audit Committee in October.
- Risk Management is planned to be reported quarterly to Audit Committee.
- Internal Audit have recently conducted a follow up Audit on Risk Management where progress on the Risk Action plan was reviewed.

The range of recommendations that external auditors can make is explained in Appendix C.





Recommendation 5 The Council should ensure timely and relevant financial monitoring reporting is undertaken and presented to the appropriate public forum.

Why/impact

Whilst we consider that arrangements for 2020/21 were appropriate, with quarterly financial reporting happening up to Q3 2021 reported in March 2021, the next finance report was the Outturn Report on 24 November 2021. We have not seen any reporting of the 2021/22 finances for the majority of the 2021/22 financial year, with Cabinet presented with a Month 11 finance report on 3 May 2022, being the first public reporting on the 2021/22 position and after the 2022/23 budget had been set. This represents a significant weakness in arrangements for 2021/22 as it is unclear what budget monitoring has been happening, and there has been inadequate reporting to Members of the financial position to allow them to scrutinise, challenge, and make properly informed decisions.

Auditor judgement

It is essential that Members are presented with timely and accurate financial reporting to allow proper scrutiny, challenge and understanding of the financial position and to allow informed decision making. Members could not be expected to make properly informed decisions on the 2022/23 financial budget if they had not received any financial reporting information on the in-year 2021/22 financial position.

Summary findings

We consider that arrangements in 2020/21 were appropriate. Given the time of our reporting, and due to the requirement to report weaknesses at the earliest opportunity, we are reflecting a key recommendation in respect of the arrangements in place for 2021/22. We note that a high-level period one finance report was presented to Cabinet in July 2022, setting out the approach to financial monitoring for the year, and in September 2022 a Q1 finance report was issued to Cabinet.

Management comments

- As reflected above financial monitoring was delivered for P11 in 2021/22
- There was internal financial reporting in 21/22 to managers to ensure operation delivery could be maintained.
- There is a monthly CMT Assurance meeting where progress on key controls is reviewed
- The 2022/23 Q1 combined Finance and Performance monitoring was presented to Cabinet in September.
- Unallocated savings amount from the existing MTFP of £478k has been highlighted in the Q1 monitoring that went to Cabinet in September. Decision has been taken to apply these amounts to vacancies at Q2 to resolve the issue. This will be reflected in the Q2 monitoring which will be presented to Cabinet in November.
- The 2022/23 Q2 Combined Finance and Performance Monitoring will be delivered to Cabinet in November.
- The Tranche 1 2023/24 Budget (See Recommendation 1) sets out the ongoing position and moves to balance the budget. This will be presented to Cabinet in October.

The range of recommendations that external auditors can make is explained in Appendix C.



Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of COVID-19, is set out on pages 13 to 20. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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Key messages

Identifies significant financial pressures

Financial plans are based on realistic key assumptions. For example, the Medium-Term Financial Plan (MTFP) presented to Cabinet on 17 February 2021, covering the period 21/22 - 24/25 has inflation built in, and there are "Unavoidable pressures", all of which are reasonable. Savings / additional income are shown separately, and we have found these to be reasonable in the past. Business rates and council tax growth are reasonable.

As a second-tier council Bromsgrove is comparatively less impacted by changes in service demand or population. It does not have adult social care, or children's services for example. However, the Medium-Term Financial Plan (MTFP) presented in February 2021 includes cost pressures, including changes to service provision, inflation and pay inflation. The MTFP also includes "Unavoidable pressures", all of which are reasonable and amount to around 5% of the base budget.

The funding settlement had a positive impact on finances, and assumptions around council tax and business rates are reasonable.

However, it is unclear what arrangements are in place to keep the Council's financial plans under review and reported to Members. There was quarterly finance monitoring reporting up to Q3 of 2020/21, presented to Cabinet on 31 March 2021. Progress was reported against each item, and the savings schemes were shown as being on track. This provides evidence that until March 2021, appropriate arrangements were in place to report on financial budgets, and recurrent savings were being delivered.

2021/22 update

After the Q3 2020/21 report, the next finance report was the Outturn Report on 24 November 2021. We have not seen any reporting of the 2021/22 finances for the majority of the 2021/22 financial year, with Cabinet presented with a Month 11 finance report on 3 May 2022. This represents a significant weakness in arrangements for 2021/22 as it is unclear what budget monitoring has been happening, and there has been inadequate reporting to Members of the financial position to allow them to scrutinise, challenge, and make properly informed decisions.

During this time period, Council staff were working remotely (due to COVID-19 regulations) and this, along with implementing a new financial systems with its the associated challenges, led to a significant loss of staff, including the Section 151 Officer in Autumn 2020. We note that adequate arrangements were in place during 2020/21, and so have not raised a key recommendation for this year. Key recommendation 5, page 11, relates to this issue and to 2021/22 arrangements. The National Audit Office Code of Audit Practice is clear that when weaknesses are identified, the auditor should not delay reporting until the Auditor's Annual Report for that year.

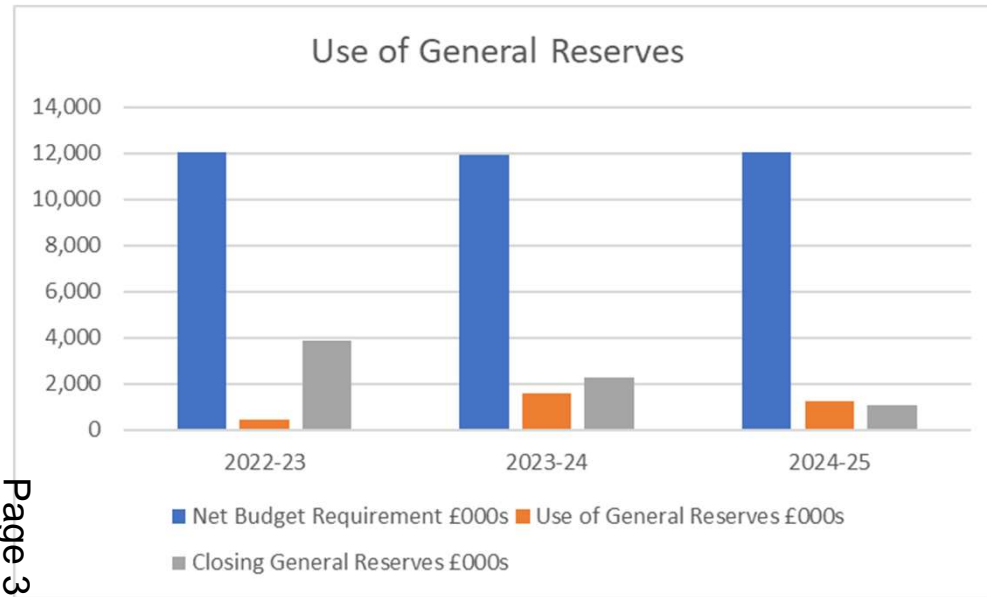
Bridging funding gaps

The Council has significant savings plans which represent around 3.5 - 4% of the base budget each year. In addition to this, reserves are being used to support around 10% of revenue expenditure each year.

We reviewed the MTFP presented to Cabinet on 17 February 2021, covering the period 2021/22 - 2024/25. Savings of £1,305k are included in the MTFP. We selected three savings schemes for further testing. Two of these - "management review savings" (intended to save £250k) and "future operating model" (intended to save £150k) appear to be unsupported by detailed business cases or robust evidence as to how those savings will be realised. The third scheme, "vehicle hire budget savings" (intended to save £171k) appears to be moving an underspend to reserves, and then using it in future years.

Including savings in the MTFP which are not fully worked up, based on robust evidence, and approved by Members, masks the financial situation and could be misleading. In addition to this, the MTFP shows use of reserves of £638k / £1,200k / £1,472k respectively. At that stage general fund reserves are forecast to be £1,735k, which is broadly only sufficient for one year. While the Council has some savings and income generation schemes in place, it is still heavily reliant on the use of reserves, to a point where it would not be sustainable in the longer term. Savings and income generation schemes represent only around one third of the overall requirement, with no robust plans to address the balance. This represents a significant weakness in arrangements. See Key recommendation 1, on page 7.

The funding gap



The graph on the left takes key figures from the Medium Term Financial presented to Cabinet on 16 February 2022. While this is outside the year of review for this report, it is important that Members are provided with an up-to-date picture of the significant financial challenges the Council faces. The figures used here are therefore different to those on the preceding page.

It is also important to note that whilst an outturn for 2020/21 was presented, this still reflects an unaudited position and challenges with the new financial ledger could also lead to adjustments to this position.

The graph shows that the amount the Council plans to spend on services over the three years is unchanged at just over £12m. However, the projected use of reserves, particularly in 2023/24 and 2024/25, means that general fund balances are planned to decrease from £3.8m to £1m. At that stage they will be insufficient to cover likely expenditure in 2025/26.

Sustainable service delivery

The Fees & Charges report for 2021/22, presented to Cabinet on 25 November 2020, demonstrates an understanding of the cost of delivering core services, and that Officers have thought about the cost of providing statutory and discretionary services, and have discussed proposed changes with portfolio holders.

The Council Plan 2019-2023 sets out eight key priorities for the next four years, underpinned by five strategic purposes. The Plan then sets out, for each of the priority areas, what the Council will do to achieve them (actions), and how they will be measured. When looking at the MTFP / Budget Setting report presented in February 2021, there is a column to state which strategic purpose the investment or saving relates to, but it could be further enhanced to link to specific actions which are set out in the Council Plan to make it clearer how investments in services will help to achieve the eight key priorities as set out in the Council Plan. This is an area that could be improved, as it also links to informed decision making around budget proposals. See Improvement recommendation 1, page 21.

Ensuring financial plans are consistent with others

The ongoing revenue costs of major capital investments is properly reflected in the revenue budget, including Key Government Grant Funded schemes such as Levelling Up where finance have been involved from the outset. For example, the MTFP presented to Cabinet in February 2021 stated "MRP, interest costs and investment income (net) (£92k)" The explanation for the £92k movement from earlier plans is "This change is due to a re-profiling of the capital programme to reflect more accurately planned spend which has moved expenditure into future years. There was also a reduction in budgeted spend at outturn for 2019/20 which has moved MRP and borrowing costs into future years. The investment income has also been revised to take account of the actual spend this financial year, 2020/21."

The 2019/20 capital outturn expenditure (£3.5m) was broadly consistent with the original budget (£4.5m), but significantly below the revised budget of £11.9m. There is a brief explanation in the financial statements, which mainly talks about making improvements to the process. The outturn report for 2019/20 explains the reason for the slippage. There is a sound rationale for each of the slipped elements, as compared to them being slipped because they or the associated revenue costs are unaffordable. However, there was a £1m underspend on the original capital budget of £4.5m, but £6.4m against the revised budget of £11.9m. While the reasons for this are explained at a high level in the outturn report, and a portion of this was due to COVID-19 impacting supply chain and project delivery, the Council needs to be much better at forecasting capital expenditure to ensure that it can more accurately plan its capital programme and build the related revenue costs more accurately into its MTFP. This is an improvement area. See Improvement recommendation 2, page 22.

Given staffing costs are a key element of the Council's expenditure, we would expect that a workforce plan would exist, setting out proposed plans for establishment amongst other things, and that this would be consistent with financial projections reported through the MTFP. Whilst the MTFP includes assumptions for pay increases and savings in respect of vacancy management, we were not provided with any evidence that a workforce plan exists. Given the staffing and recruitment challenges the Council face (as many other Councils also do), we consider this a weakness in arrangements. See Improvement recommendation 3, page 23.

Identifying and managing risk to financial resilience

A report was presented to Cabinet in October 2020, so that Members were aware of the financial framework, prior to approving the MTFP itself in February 2021. There is a section on risks to the MTFP - including government funding, business rates income and identification of savings schemes. However, none of these are quantified or subject to ranges, impact, sensitivity analysis etc. This is an area for improvement. See Improvement recommendation 4, page 24.

We have not seen any evidence of scenario analysis through different assumptions being used for modelling. The Council needs to conduct scenario analysis through different assumptions being used for modelling. These could then be presented to Members so that they can see the impact different assumptions have on the MTFP and this would support more informed decision making. This is an area for improvement. See Improvement recommendation 4, page 24.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Key messages

Risk management and internal control

Each report presented to Members has a section on "Risk Management", so risks are identified and highlighted. Member Risk Champion reports provide assurance over the identification and recording and scoring of risks at a departmental level, based on a "Deep Dive" into specific risk areas. However, an Internal Audit report from June 2019 identified significant weaknesses in risk management arrangements. The Council engaged external experts (Zurich Municipal) to build on this report, and reported the findings to the Audit, Standards & Governance Committee in October 2019. Since that date there have not been any formal update reports to Members until July 2022. Members were therefore not provided with appropriate assurance during this period over effective risk management and whether the issues raised by Internal Audit and Zurich Municipal have been addressed. This is a significant weakness, and we raised a key recommendation related to this, see page 10.

Internal Audit is provided by the Worcestershire Internal Audit Shared Service, hosted by Worcester City Council. The service provides internal audit to a number of local authority bodies in Worcestershire. The service is effective and assesses the effectiveness of controls, reporting to the Audit, Standards & Governance Committee on a regular basis. The revised annual plan was delivered in full, although the original plan was reduced significantly as a result of the impact of COVID-19. The audits completed provide sufficient coverage for the Head of Internal Audit Opinion to be issued.

Internal Audit also oversee and manage the Council's response to possible fraud - including being aware of the risk in their audit work and undertaking any investigations. What is done proactively is less clear, although there were posters on the noticeboards in Parkside. While the Council has adequate arrangements in place in respect of the prevention and detection of fraud, it could enhance the proactive fraud awareness work undertaken. This is an area for improvement. See Improvement recommendation 5, page 25.

Annual budget setting process

We have not seen any evidence of external engagement in the budget setting process. While this is not considered to be a significant weakness, the Council should enhance the budget setting process by ensuring appropriate engagement with external stakeholders. This should include council taxpayers as well as service users. This will help the Council better understand the priorities and non priorities of those who live in the District and may enable increasingly scarce resources to be better focused. This is an area for improvement. See Improvement recommendation 6, page 26.

The Medium-Term Financial Plan (MTFP) was approved by the (Acting) S.151 Officer and the Portfolio Holder. It was also considered by the Finance and Budget Working Group. However, it is unclear the extent to which budget holders and senior managers were consulted. The Council needs to retain and provide evidence of internal involvement in the budget setting process to evidence wider consultation, which ensures informed decisions are being made. This is an area for improvement. See Improvement recommendation 6, page 26.

Budgetary control

During 2020/21 the finance team engaged with budget holders to review financial performance and identify actions to resolve adverse variances. Reporting to Cabinet was timely, with a clear explanation of the main variances and corrective action being taken. As noted already, these arrangements essentially stopped with the implementation of the new ledger system in February 2021, and there was no in year reporting after that date until after the 2021/22 year end. Whilst not a weakness for 2020/21, this is a significant weakness for 2021/22 and we have raised a key recommendation on page 11.

Non-financial information, such as service activity and workforce information, is not integrated into financial reports to Cabinet. The lack of formal performance reporting to Members is a significant weakness. During this period Members did have access to the Performance Dashboard. While the quarterly finance reports to Cabinet during 2020/21 include very high-level information, for example, about activity being higher or lower than planned, this is not in sufficient detail to allow meaningful comparisons against expected activity and its impact on the budget and also service users. This is an area for improvement. See Improvement recommendation 7, page 27.

There is adequate reporting on treasury management activity to Cabinet. Cabinet received the "Capital Strategy 2020/21 incorporating the Treasury Management Strategy" on 25 November 2020. The report presents the Capital Strategy, Treasury Management Strategy, Minimum Revenue Provision Statement, a policy for use of flexible capital receipts and the Investment Strategy for 2020/21 to be considered for recommendation to Council. The MTFP presented to Cabinet in February 2021 sets out the changes from initial forecasts in regard to MRP, interest costs and investment income. The report also includes summary budget, for three years, which highlights the revenue impact of capital bids, investment income, interest payable and MRP. This allows the impact of treasury and capital activity to be properly understood, and also evidences that the Council is aware of the impact of these activities upon its revenue budgets.

We have not seen any evidence that financial performance is a key objective for senior managers or forms part of the body's performance management processes, to ensure formal and effective accountability for the delivery of budgets. Discussions with some Officers suggest that budget holders are reluctant to get involved in budget monitoring and see it as a finance job. This is an area for improvement. See Improvement recommendation 8, page 28.

Our 2019/20 Annual Audit Letter, presented on 15 November 2021, commented that our opinion on the 2019/20 financial statements was not provided until 5 October 2021. We also noted that the 2020/21 financial statements should have been prepared by 31 July 2021. After several delays and postponements, we are now told to expect them by mid November 2022. This represents a significant weakness and is reflected within our Statutory Recommendation on page 6.

Making properly informed decisions

The Council ensures that Cabinet is provided with appropriate levels of relevant information on which to make major decisions, for example, the "Burcot Lane Site Redevelopment - Next Steps Report" presented to Cabinet on 6 August 2020. Before being presented to Cabinet reports are frequently considered by the Overview and Scrutiny Committee, with recommendations made as appropriate.

However, as we have previously reported it is unclear the extent to which the Council engages with stakeholders regarding the body's medium- to long-term financial strategy, current financial position and likely financial challenges. This is an area for improvement. See Improvement recommendation 6, page 26.

Ensuring appropriate standards

The Council has adequate arrangements in place to monitor compliance with legislation and regulatory standards and to communicate expected behaviours to staff. This includes a Monitoring Officer, as well as an in-house legal team. The Monitoring Officer provides a report to each Audit, Standards & Governance Committee.

Declarations of interest are shown for each Councillor on the website, so are publicly available. Declarations of Interest is also one of the first items on all Committee and Cabinet meetings. This helps to ensure that appropriate standards are maintained within the Council, and we have no evidence of inappropriate arrangements.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Key messages

Using performance information

The last performance management report to Cabinet was 30 May 2018. This pre-dates the COVID-19 pandemic by nearly two years. Decision makers were therefore unable to monitor the Council's performance and identify areas for improvement. We note that from September 2022, Cabinet were provided a quarterly integrated Financial and Performance Report. However, for 2020/21 and 2021/22, although Members did have access to the Corporate Dashboard, wider public reporting was not undertaken nor was performance discussed on public agendas and this is a significant weakness which is reflected within our key recommendation on page 9.

We have not seen any evidence that Cabinet is provided with assurance over the accuracy of financial and performance information. Once financial reporting and performance reporting again become routine and regular, the Council should consider expanding the role of internal audit or to provide assurance that financial information presented to Members accurately reflects the financial ledger. The Council should also consider asking internal audit to verify the accuracy of performance information. This is an area for improvement. See Improvement recommendation 9, page 29.

The Council makes very limited use of benchmarking costs and performance against similar bodies in order to identify areas for improvement, cost savings or income generation. We have seen one example from the 2021-22 fees & charges summary presented to Cabinet on 25 November 2020 in regard to street naming where a benchmark was taken from

eight council areas that included Wyre Forest, Walsall, Worcester, Wychavon, Malvern Hills, Birmingham, Coventry and Solihull. However, there is scope to significantly enhance this area. This is an area for improvement. See Improvement recommendation 10, page 30.

Evaluating services

The Council received an LGA Corporate Peer Challenge in January 2018 with a follow up visit in February 2020. This report was finalised in July 2020 having been delayed whilst the Council responded to the peak of the COVID-19 pandemic. The Council is therefore open to learning from other organisations but does not do this systematically. This is an area for improvement. See Improvement recommendation 11, page 31.

The LGA Corporate Peer Challenge identified that the Council needs to ensure services align to strategic priorities and that it considers services which don't need to be continued, and whether they should continue to be. Post the COVID-19 pandemic the Council needs to ensure that it addresses the recommendations made by the peer review.

The Council focuses on the longer-term, rather than looking at short term savings or cuts. Examples include revisiting Minimum Revenue Provision and making advance payments to the pension fund in order to secure a discount on contributions over three years. This helps to ensure more sustainable planning and decision making.

We have not identified any issues in respect of significant procurement within the period. The Council has a procurement strategy; however contract procedure rules were last updated in 2016. The Council should be reviewing and updating the procurement strategy regularly, not least to ensure that legislative changes are reflected appropriately. The latest version of the Contract Procedural Rules is dated 2016 which is what procurement training is based upon. See Improvement recommendation 12, page 32.

Partnership working

Opportunities for consultation with key stakeholders have been more limited during the COVID-19 pandemic. This was exacerbated by staffing capacity issues already referenced during the period. However, post pandemic the Council needs to engage and consult with key stakeholders, where appropriate, to determine local priorities for resources or opportunities for savings. This is particularly important given the financial challenges the Council faces and as the District builds back from the pandemic. This is an area for improvement. See Improvement recommendation 13, page 33.

Where the Council is considering undertaking significant or unusual transactions, for example, the Burcot Lane site redevelopment and possible establishment of a Local Authority Trading Company, it provides appropriate levels of information on risk and reward to decision makers.

There are shared service arrangements with Redditch BC for a large number of back and front office functions, and this works well and has delivered efficiencies over many years. The Council also works with other councils across Worcestershire, for example, on highways and infrastructure projects. The Council also hosts Worcestershire Regulatory Services (WRS) - a shared service delivering Environmental Health functions (food safety, health and safety and many aspects of pollution control) and Licensing administration on behalf of the six district councils in Worcestershire. There is evidence that the Council seeks to engage and work with partners to deliver and improve services.

Benefits realisation

In terms of benefits realisation, we have considered the new finance system - a major project which "went live" in February 2021. As of October 2022, we are advised that the significant issues with the implementation of cash receipting are almost resolved, and data migration mapping is complete. We have not yet been provided with this work and so cannot confirm this. The expected benefits have not yet been realised. In fact, it has caused significant delays in internal and external financial reporting and cost additional resources in trying to address the issues. It is clear that there are a number of lessons to be learned from the implementation, and that this was not managed appropriately. We consider this to be a significant weakness. See Key recommendation 2, page 8.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

Financially, the main impact was reduced income in terms of leisure and car parking. These have subsequently been covered by government grants and reimbursement schemes, which mean that the potentially significant impacts to the Council's 2020/21 budget were not realised.

Governance

The COVID-19 pandemic impacted the Council in a number of ways. Systems and processes within the finance function were largely unaffected, as these were largely automated, and officers had the ability to work from home. The Council also made safe space available in the Council Offices for those people who needed it.

Meetings were held virtually, in line with the emergency legislation, and this allowed the business of the Council to continue.

Improving economy, efficiency and effectiveness

The Council found distributing discretionary business grants challenging. This is in terms of agreeing an approach and/or policy, responding to changes in Government guidance, and processing the number of requests received. Final guidance was often received significantly after Government announcements. The challenge is as expected as the finance and revenue teams cover two councils.

Ultimately, the Council distributed significant sums of money to local residents and businesses during a very challenging period.



**COVID-19
RESPONSE**

Improvement recommendations



Financial sustainability

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1 Recommendation	The Medium-Term Financial Plan / Budget setting report should be linked to specific actions which are set out in the Council Plan to make it clearer how investments in services will help to achieve the eight key priorities as set out in the Council Plan.
Why/impact	The Council Plan 2019-2023 sets out eight key priorities for the next four years, underpinned by five strategic purposes. The Plan then sets out, for each of the priority areas, what the Council will do to achieve them (actions), and how they will be measured. When looking at the Medium-Term Financial Plan / Budget Setting report presented in February 2021, there is a column to state which strategic purpose the investment or saving relates to, but it could be further enhanced to link to specific actions which are set out in the Council Plan to make it clearer how investments in services will help to achieve the eight key priorities as set out in the Council Plan.
Auditor judgement	Linking the Council Plan to the Medium-Term Finance Plan and Budget Setting Report could be improved, as it also links to informed decision making around budget proposals.
Summary findings	Better linking the two reports will help decision making and demonstrate how actions set out in the Council Plan are being delivered.
Management comment	<ul style="list-style-type: none"> • Present Savings quantum , given the “cost of living crisis” and double digit inflation has required a re-questioning of priorities with financial sustainability the most pressing issue. • Cabinet were updated on process being followed to balance budgets in the P1 Monitoring report in July 2022. • Officer sessions have taken place in July and August to give members options to balance the budget , which will be discussed in Tranche 1 of the 2023/24 Budget in October. • Budget setting clearly linked to Council priorities • CMT refocussed from 27 July with final Wednesday CMT each month reviewing in year budget, performance and projects (compliance and Assurance). • Ongoing quarterly monitoring from Q1 (Sept 2022) will be financial and performance based to link both sides together.

The range of recommendations that external auditors can make is explained in Appendix C.

Agenda Item 4

Improvement recommendations



Financial sustainability

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2 Recommendation	The Council needs to improve capital budgeting and ensure that the capital programme is delivered as planned.
Why/impact	2019/20 capital outturn expenditure (£3.5m) was broadly consistent with the original budget (£4.5m), but significantly below the revised budget of £11.9m. A portion of this was due to COVID-19 impacting supply chain and project delivery. There is a brief explanation in the financial statements, which mainly talks about making improvements to the process. The outturn report for 2019/20 explains the reason for the slippage. There is a sound rationale for each of the slipped elements, as compared to them being slipped because they or the associated revenue costs are unaffordable. However, there was a £1m underspend on the original capital budget of £4.5m, but £6.4m against the revised budget of £11.9m. While the reasons for this are explained at a high level in the outturn report, the Council needs to be much better at forecasting capital expenditure.
Auditor judgement	While some slippage in capital projects is inevitable, this should be kept to a minimum. Capital expenditure on local projects has a direct benefit to the local economy, which will be vital post COVID-19.
Summary findings	Better capital budgeting and ensuring the capital programme is delivered will ensure that the improvements projects are intended to deliver are realised and also benefit the local economy.
Management comment	<ul style="list-style-type: none"> • Capital monitoring has been fully integrated in a joint finance and performance monitoring report starting Q1 – September 2022. • Financial Services Manager, who started in August has extensive Capital Experience as so will be nominated Finance lead for Capital. • Report now includes the impact and ongoing monitoring of Levelling Up and UK Shared Prosperity Fund as part of the overall process as these sums dwarf the “normal” capital programme and resources need to be concentrated on them as they are time limited (Levelling Up, UKSPF). Finance has been involved in these project from inception to give financial providence • New Processes in place by end of September 2022 which has resulted in a freeze on schemes not yet started (reported as part of the Tranche 1 Budget). • Capital Budget Manager training will need to take place from October 2022. • Noted that COVID-19 and the present inflation crisis have significant impact on supply chain and delivery of Capital Programmes.

The range of recommendations that external auditors can make is explained in Appendix C.

Agenda Item 4

Improvement recommendations

Financial sustainability

3 Recommendation	The Council should develop a workforce plan / strategy and ensure that this aligns to its financial plans.
Why/impact	Staffing costs represent a significant element of the Council's budget. Ensuring a clear linkage between planned staffing levels, establishment and seniority and the Council's financial plans ensures that these key areas are aligned.
Auditor judgement	We were not provided with evidence to establish that a workforce plan exists that clearly links to the Council's financial plans.
Summary findings	Whilst the Council does include assumptions for pay increases and potential savings related to vacancy management, we did not see evidence of an approved workforce plan being in place. A lack of clear workforce plan risks that financial and workforce planning is not sufficiently aligned and could lead to financial challenges.
Management comment	<ul style="list-style-type: none"> • Workforce plan and skills matrices have come to CMT in June 2022. • Updated plans, including succession planning, and skills matrices were completed in all Services by August 2022. • A review of establishment is part of the finance recovery programme (was initially June), with Finance and HR jointly visiting Services to revalidate establishment and vacancies. • Workforce Strategy due to Cabinet in November 2022.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Financial sustainability

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4 Recommendation	Financial plans presented to Members should include better explanation around the key risks and assumptions as well as sensitivity analysis and modelling different scenarios.
Why/impact	<p>A report was presented to Cabinet in October 2020, so that Members were aware of the financial framework, prior to approving the Medium-Term Financial Plan (MTFP) itself in February 2021. There is a section on risks to the MTFP - including government funding, business rates income and identification of savings schemes. However, none of these are quantified or subject to ranges, impact, sensitivity analysis etc.</p> <p>We have not seen any evidence of scenario analysis through different assumptions being used for modelling. The Council needs to conduct scenario analysis through different assumptions being used for modelling. These could then be presented to Members so that they can see the impact different assumptions have on the MTFP.</p>
Auditor judgement	Providing Members with information around risks and the impact of using different scenarios and assumptions supports Members to better understand how the decisions they are being asked to make could be impacted.
Summary findings	Presenting a report in advance of the full MTFP is good practice. However, more comprehensive information is needed in order to make fully informed decisions.
Management comment	<ul style="list-style-type: none"> 2023/24 MTFP will be delivered in 2 Tranches. As set out in the existing MTFP there is a deficit of £1,588k to close in 2023/24 rising to £1,623k in 20225/26. Tranche 1 documentation which will be presented to Cabinet on the 26th September has £1,685k of proposals which will result in the Initial gap being closed without the use of Reserves. Fuller detail is given on underlying assumptions and a Savings Proposal Document gives the required transparency and allocation to the correct budgets. Given the present financial crisis, and including inflation running at over 10%, with utilities even higher, the Tranche 1 Reports have a draft Robustness statement setting out the viability of the budget at this time as the projected Gap would require £1.5m of additional savings in Tranche 2 which if not met would extinguish reserves within 2 years. Budget has high level scenarios in assumptions section. Have now access to CIPFA comparative data (21 July 2022) to benchmark costs as part of this process. Budget working Group timetable aligned now to the 2 Tranche budget that is being delivered.

The range of recommendations that external auditors can make is explained in Appendix C.

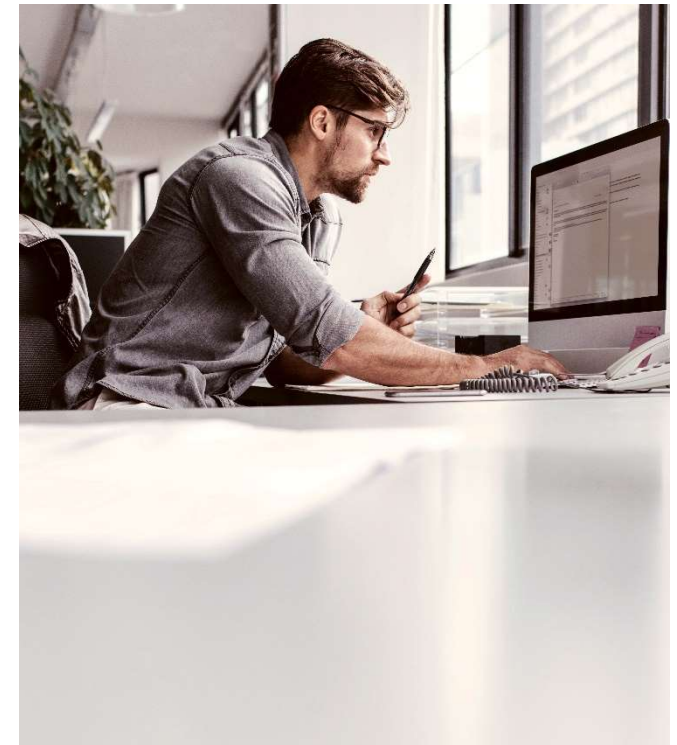
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Improvement recommendations

Governance

5 Recommendation	The Council should work with Internal Audit to ensure that proactive fraud prevention work is included in the audit plan, and the work and outcomes are reported to the Audit, Standards & Governance Committee.
Why/impact	Internal Audit oversee and manage the Council's response to possible fraud - including being aware of the risk in their audit work and undertaking any investigations. What is done proactively is less clear, although pre-pandemic, there were posters on the noticeboards at Parkside.
Auditor judgement	While the Council has adequate arrangements in place in respect of the prevention and detection of fraud, it could enhance the proactive awareness work undertaken. This is an area for improvement.
Summary findings	While it is clear that Internal Audit work takes account of the risk of fraud, there is scope to enhance, and make more public, the proactive work undertaken.
Management comment	Director of Finance to commission Internal Audit to undertake and overall Fraud Assessment (linked to present plan).

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

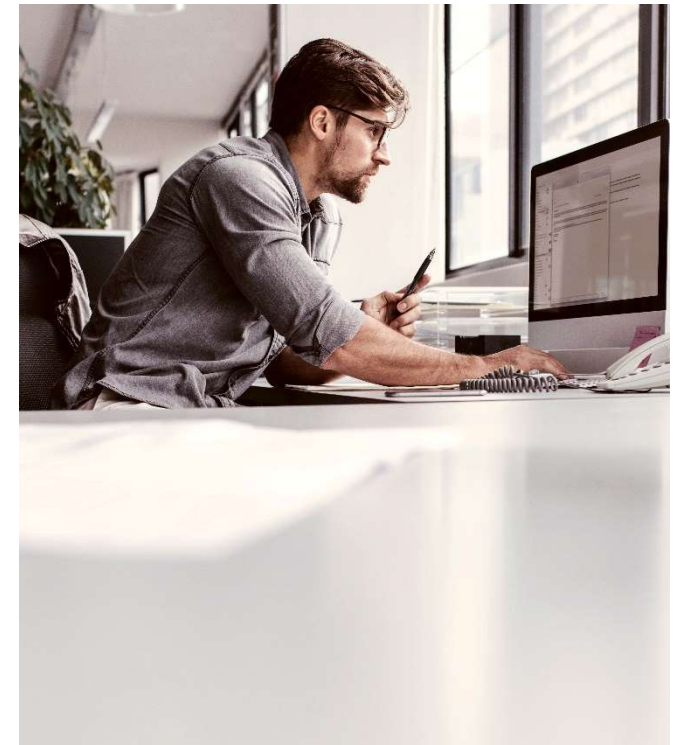
6 Recommendation	The Council needs to ensure that internal and external stakeholders, including service users, are engaged and consulted in the budget setting processes, and that this is documented and reported.
Why/impact	<p>We have not seen any evidence of external engagement in the budget setting process. While this is not a significant weakness the Council should ensure appropriate engagement with external stakeholders. This should include council taxpayers as well as service users. This will help the Council better understand the priorities and non priorities of those who live in the District and may enable increasingly scarce resources to be better focused.</p> <p>The Medium-Term Financial Plan (MTFP) was signed off by the (Acting) S.151 Officer and the Portfolio Holder. It was also considered by the Finance and Budget Working Group. However, it is unclear the extent to which budget holders and senior managers have been consulted. The Council needs to retain and provide evidence of internal involvement in the budget setting process.</p>
Auditor judgement	Ensuring that the budget is based on the needs of service users and other stakeholders is essential in demonstrating that public money, raised through taxation, is being directed to those areas most in need.
Summary findings	Setting a budget should not be seen as a finance team task. It should include all aspects of the Council as well as service users and the public.
Management comment	<ul style="list-style-type: none"> • 2023/24 Tranche 1 budget sets out clearly timetable for delivery of both Tranches of the budget and includes a feedback form (and timetable for return) • 2023/24 Budget will also be web enabled to link to more Stakeholders. • Meetings will be set up in October to brief Staff and the Union on implications of the budget. • Budget Working Group (will review data and feedback to Cabinet) will have more meetings to reflect 2 Tranche budget. • A Savings Proposal Document which clearly sets out savings items, and impacts, is part of the Tranche 1 Budget Pack. This also includes the Feedback form.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

7 Recommendation	The Council needs to develop quarterly financial monitoring reports so that performance information is included in order to better explain variances and the financial impact of service decisions.
Why/impact	Non-financial information, such as service activity and workforce information, is not integrated into financial reports to Cabinet. The lack of performance reporting to Members is a significant weakness which we have reported separately (see page 6). While the quarterly finance reports to Cabinet during 2020/21 include very high-level information, for example, about activity being higher or lower than planned, this is not in sufficient detail to allow meaningful comparisons against expected activity and budget.
Auditor judgement	Members cannot make informed decisions without being presented with a full picture encompassing financial and non-financial information.
Summary findings	Financial reporting to Cabinet during 2020/21 included high level non-financial information but should be quarterly and incorporate more detailed non-financial information.
Management comment	<ul style="list-style-type: none"> • A Joint Finance and Performance Reports was delivered to Cabinet in September for 2022/23 Q1 Monitoring. • Q2 2022/23 Monitoring will be delivered to Cabinet in November.



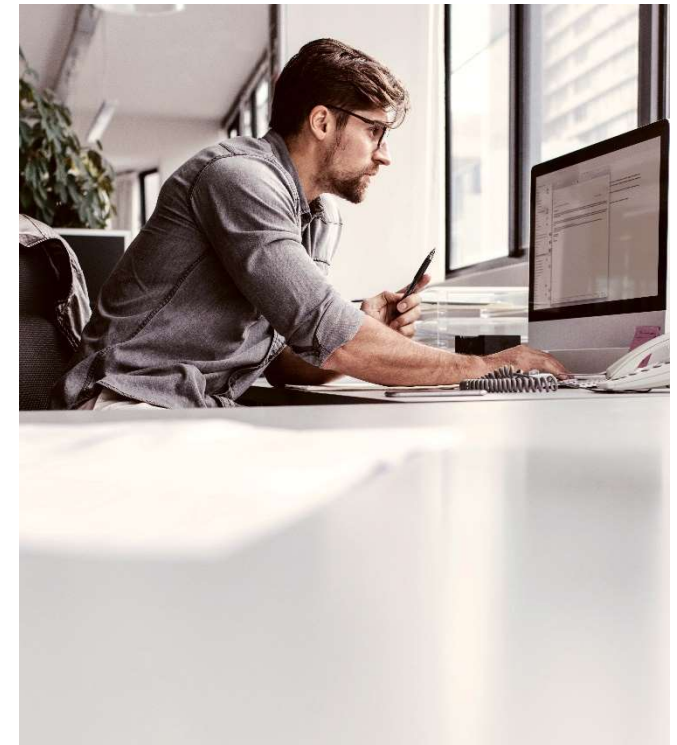
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

8 Recommendation	The Council needs to ensure that budget holders are actively involved in budget monitoring and are aware that it is a key part of their role.
Why/impact	We have not seen any evidence that financial performance is a key objective for senior managers and forms part of the body's performance management processes to ensure formal and effective accountability for the delivery of budgets. Our discussions with Officers suggest that budget holders are reluctant to get involved in budget monitoring and see it as a finance job.
Auditor judgement	The new finance system should give budget holders real time access to financial information. It is crucial that this is used by budget holders to inform decision making and ensure that finances are kept on track.
Summary findings	Budget monitoring should not be seen as a function of the finance team. All budget holders, throughout the Council, need to be involved and held to account where they are not.
Management comment	<ul style="list-style-type: none"> • Council has bought in 3rd party to document ERP system to ensure Council fully understands how the system is configured. This work started in October 22. • Updated training will take place on system use and financial requirements based on updated performance guides and procedures and documentation. • Part of this process will be a "finance agreement" which sets out clearly the expectations of finance staff and budget managers and their staff in key finance processes. This agreement has been widened so relates to all support services so all back-office process including payroll which is key to monitoring is included. Initial drafts were due at end of September and an overall draft will be on 14th October. • Formal quarterly monitoring to Members has restarted as at Q1 2022/23.

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The range of recommendations that external auditors can make is explained in Appendix C.

Agenda Item 4

Improvement recommendations



Improving economy, efficiency and effectiveness

9 Recommendation	The Council need to put in place arrangements to provide independent assurance over the accuracy on in-year financial reporting and performance information.
Why/impact	We have not seen any evidence that Cabinet is provided with assurance over the accuracy of financial and performance information. Once financial reporting and performance reporting again become routine and regular, the Council should consider expanding the role of internal audit to provide assurance that financial information presented to Members accurately reflects the financial ledger. The Council should also consider asking internal audit to verify the accuracy of performance information.
Auditor judgement	Members need assurance that the information provided to them, on which they are asked to make decisions, is reliable and accurate.
Summary findings	There has not been any formal performance reporting for four years, although Members have had access to the Performance Portal during this time, and regular financial reporting ceased from March 2021 until May 2022. We have identified these as significant weaknesses and made Key Improvement recommendations in respect of both issues. When these are addressed, it is important that Members are provided with assurance over the accuracy and reliability of the information provided to them.
Management comment	<ul style="list-style-type: none"> • Joint Finance and Performance reporting for Q1 was reported to Cabinet in September. • Audit Committee is the right place for financial performance to be challenged. The schedule will be changed so that Internal Audit Reports include their view on accuracy, timeliness and completeness of financial and performance monitoring information.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

10 Recommendation	The Council needs to significantly enhance the use of benchmarking costs and performance against other similar bodies.
Why/impact	The Council makes very limited use of benchmarking costs and performance against similar bodies in order to identify areas for improvement, cost savings or income generation. We have seen one example from the 2021-22 fees & charges summary presented to Cabinet on 25 November 2020 in regard to street naming where a benchmark was taken from eight councils that included Wyre Forest, Walsall, Worcester, Wychavon, Malvern Hills, Birmingham, Coventry and Solihull. However, there is scope to significantly enhance this area.
Auditor judgement	Making comparisons with other similar bodies can help drive improvement, lower cost or increase income and should be embedded across the Council.
Summary findings	It is unclear why the Council uses benchmarking information in one instance but, seemingly, nowhere else. This has the potential to significantly improve performance and / or finances across the Council.
Management comment	Council now has access to CIPFA comparative data (21 July 2022) to benchmark costs as part of this process. This data will be used to assess cost effectiveness of services being delivered to inform future strategy.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

11 Recommendation	The Council needs to ensure that the recommendations made by the LGA Corporate Peer Challenge in January 2018 and February 2020 are addressed and that it then further improves by learning from exemplar councils across the country.
Why/impact	The Council received an LGA Corporate Peer Challenge in January 2018 with a follow up visit in February 2020. This report was finalised in July 2020 having been delayed whilst the Council responded to the peak of the COVID-19 pandemic. The Council is therefore open to learning from other organisations but does not do this systematically.
Auditor judgement	The Council should be applauded for requesting a Peer Challenge. It now needs to ensure that the recommendations made are implemented and that further improvements are made by comparison with other councils on a regular basis.
Summary findings	The COVID-19 pandemic inevitably delayed the Council response to the recommendations made by the LGA Corporate Peer Challenge. There is now an opportunity to not only implement these but go beyond them.
Management comment	<ul style="list-style-type: none"> The Council's Action plan was contained in the Cabinet Report dated 31st October 2018. The Follow up Report was issued in July 2020, in the middle of the C-19 Pandemic. The Council will review outstanding actions from the Plan against strategies in place and provide an updated plan by the end of December 2022. Learning will also be integrated with benchmarking reviews that will be carried out as part of the MTFS process.

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The range of recommendations that external auditors can make is explained in Appendix C.

Agenda Item 4

Improvement recommendations



Improving economy, efficiency and effectiveness

12 Recommendation	The Council should ensure that it has an up-to-date procurement strategy and that this, and any other key policies and strategies, are routinely reviewed and updated.
Why/impact	Contract procedure rules were last updated in 2016. There is a risk that this is now out of date, does not reflect current practices or is not in accordance with current legislation. Whilst we did not identify and issues in respect of procurement activity, policies and strategies should be subject to regular review.
Auditor judgement	Strategies should be regularly reviewed to ensure that they remain relevant and up-to-date with current requirements and legislation.
Summary findings	Strategy/procedure rules have not been updated for a significant period.
Management comment	<ul style="list-style-type: none"> The Council has significant procurement information on the ORB. As with financial services, an updated plan is required to ensure compliance to process. This will include training (which takes place presently) and is required by December 2022.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

13 Recommendation	The Council needs to engage and consult with key stakeholders, where appropriate, to determine local priorities for resources or opportunities for savings.
Why/impact	Opportunities for consultation with key stakeholders have been more limited during the COVID-19 pandemic. However, post pandemic the Council needs to engage and consult with key stakeholders, where appropriate, to determine local priorities for resources or opportunities for savings. This is particularly important given the financial challenges the Council faces and as it builds back.
Auditor judgement	The Council is funded by public money, largely through taxation, including council tax. It is important that taxpayers and service users have a say in the development of local priorities and areas for disinvestment.
Summary findings	As the challenges presented by the COVID-19 pandemic continue to lessen and life returns to “normal” the Council needs to re-engage with service users and key stakeholders across the board to ensure that it is prioritising and delivering what they want and need.
Management comment	<p>Director of Finance to</p> <ul style="list-style-type: none"> • Set up internal staffing budget session in October 2022 for staff. • Staff have the ability to feed in savings ideas via the ORB. • Budget working group timetable now reflects the 2 Tranche process. • Savings Proposal Document within the MTFP has a feedback section . • Budget papers are clear when feedback has to be returned • Budget will also go out in Web version – to link to more stakeholders



The range of recommendations that external auditors can make is explained in Appendix C.

Opinion on the financial statements



Audit opinion on the financial statements

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We have yet to receive draft financial statements for 2020/21. As set out on page 6, this is a significant weakness, and is included in our statutory recommendation. As we have not received the financial statements this report is an Interim report.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

As we have not received the 2020/21 financial statements, we have not been able to undertake this work.

When provided with financial statements, Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Agenda Item 4

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local

authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - Risks of significant weaknesses - our procedures and conclusions

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, the conclusions we have drawn and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability was identified as a potential significant weakness. See pages 12-14 for more details.	To address this risk we: <ul style="list-style-type: none"> reviewed the MTFP which Cabinet approved in February 2021 and selected a sample of savings or income generation schemes to test in order to obtain assurance that they are robust and realistic; monitored the progress made to identify non-priority areas and to begin to disinvest in those areas; and reviewed the longer-term plan to bridge the structural deficit. 	The Council needs to ensure that the Medium-Term Financial Plan presented to Members is completely transparent regarding the financial challenge and that any savings schemes included are fully worked up and approved by Members in advance.	Appropriate arrangements not in place, one key recommendation raised.
Governance was identified as a potential significant weakness in respect of risk management arrangement. See page 15 for more details.	To address this risk we: <ul style="list-style-type: none"> reviewed the arrangements in place to ensure that Members are provided with appropriate risk management information in order for them to obtain assurance over the processes and to make informed decisions. 	The Council needs to ensure that regular, written risk management reports are presented to the Audit, Standards & Governance Committee. These should include corporate risks, how they are being managed, and named individuals responsible for overseeing them, together with any further actions being taken to reduce the risk.	Appropriate arrangements not in place, one key recommendation raised.

Appendix B - Risks of significant weaknesses - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Improving economy, efficiency and effectiveness was identified as a significant weakness, in respect of performance reporting. See page 17 for further information	<p>To address this risk we:</p> <ul style="list-style-type: none"> reviewed how the Council is reporting performance to Members or making information available to them on an ongoing basis in order for them to obtain assurance over the processes and to make informed decisions. 	The Council needs to re-instate quarterly performance reporting to Cabinet. Each report should cover a suite of corporate key performance indicators or measures and then focus on each portfolio on a rotating basis.	Appropriate arrangements not in place, one key recommendation raised.
Improving economy, efficiency and effectiveness was identified as a significant weakness, in respect of benefits realisation. See page 18 for further information	<p>To address this risk we:</p> <ul style="list-style-type: none"> reviewed the arrangements in place for how the Council measures benefits realisation from commissioned or procured services. 	The expected benefits from the new financial ledger system have not yet been realised. Worse, the Council has incurred significant additional cost and time in resolving issues that could have been addressed at the time. This has had a knock-on effect in other areas such as reports and returns to government and internal and external financial reporting.	Appropriate arrangements not in place, one key recommendation raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory Page 55	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	Yes – and also subject to a separate report entitled “Bromsgrove District Council - Section 24 Statutory Recommendations”	6
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	7-11
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	21-33



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AUDIT, STANDARDS & GOVERNANCE COMMITTEE

WORK PROGRAMME 2022/23

9 November 2022

- Section 24 Report
- Interim Auditor's Annual Report 2020-2021
- Audit Assurance of Safeguarding and Fire Evacuation (Chief Executive Officer invitation)
- Annual Appointment of Risk Champion
- Audit, Standards and Governance Committee Work Programme

January 2023

- Standards Regime - Monitoring Officer's Report
- External Audit – Progress / Action Plan Update Report
- Internal Audit – Progress Report
- Statement of Accounts 2020/2021
- Financial Savings Monitoring Report
- Overall Risk and Corporate Governance Report
- Risk Champion's Verbal Update
- Audit, Standards and Governance Committee Work Programme
- Grant Thornton – External Audit Plan 2022-2023*
- Grant Thornton – Progress Report*
- Treasury Outturn Report*

March 2023

- Standards Regime - Monitoring Officer's Report
- Audit, Standards and Governance Committee – Annual Report 2022 - 2023
- Grant Thornton – Audit Plan 2023-2024
- Internal Audit - Draft Audit Plan
- Statement of Accounts 2021/2022
- Risk Champion's Verbal Update
- Audit, Standards and Governance Committee Work Programme

*to be confirmed

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