

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

1ST JUNE 2023, AT 6.00 P.M.

PRESENT: Councillors R. Bailes, S. M. Evans, D. J. A. Forsythe, D. Hopkins, B. Kumar, B. McEldowney, D. J. Nicholl, S. T. Nock, H. D. N. Rone-Clarke and E. M. S. Gray (Substitute)

In attendance:

Councillor C. Hotham - Portfolio Holder for Finance and Enabling
Mr. Jackson Murray - Grant Thornton (on Microsoft Teams)

Officers: Mr. P. Carpenter, Mrs. C. Felton, Ms. M. Howell,
Mr. A. Bromage and Mr. M. Sliwinski.

1/23

ELECTION OF CHAIRMAN

A nomination for the position of Chairman was received in respect of Councillor D. J. Nicholl. On being put to the vote it was

RESOLVED that Councillor D. J. Nicholl be elected Chairman of the Committee for the 2023-24 municipal year.

2/23

ELECTION OF VICE-CHAIRMAN

A nomination for the position of Vice Chairman was received in respect of Councillor H. D. N. Rone-Clarke. On being put to the vote it was

RESOLVED that Councillor H. D. N. Rone-Clarke be elected Vice Chairman of the Committee for the 2023-24 municipal year.

3/23

APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES

Apologies for absence were received from Councillor D. G. Stewart with Councillor E. M. S. Gray in attendance as named substitute.

4/23

DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS

There were no declarations of interest nor of any whipping arrangements.

5/23

TO CONFIRM THE ACCURACY OF THE MINUTES OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 9TH MARCH 2023

The minutes of the meeting of the Audit, Standards and Governance Committee held on 9th March 2023 were submitted for Members' consideration.

RESOLVED that the minutes of the Audit, Standards and Governance Committee meeting held on 9th March 2023 be approved as a correct record.

6/23

STANDARDS REGIME - MONITORING OFFICERS' REPORT

The Head of Legal, Democratic and Property Services presented the Monitoring Officer's report and highlighted that in response to a Parish Council complaint in respect of social media activity the training programme for Members had been updated. Specific training on social media use and conduct had been arranged with a police force inspector. This training was to take place either in June or July with the precise date to be confirmed.

With regards to Independent Person arrangements, it was reported that the Council was considering an option to recruit an Independent Person by joining the existing retained pool of Independent Persons that was set up by six other authorities in Worcestershire working together in 2012. The Council would incur a small fee if a decision was made to proceed with this option. Members requested that detail be provided in respect of the exact fee this option would incur.

More information on the proposal to recruitment the Independent Person would be submitted to a future meeting of the Committee but in the interim the current Independent Person, Mr. Mel Nock, would continue in the role of Independent Person to cover the transition to new arrangements (expected to come into effect by autumn 2023). It was also proposed that services of Mr. Nock be retained for a further term of four years in respect of his role as a support to the Monitoring Officer in the management of Member to Member complaints.

It was commented in response to a Member question that the current Independent Person, Mr. Nock, had provided a great deal of support to the Monitoring Officer, in terms of providing a valued perspective on complaints and allowing many complaints to be resolved without recourse to formal hearings. It was added that Mr. Nock's assistance would continue to be needed as most complaints received by the Monitoring Officer were Member to Member complaints (including Parish Councils complaints).

RESOLVED that the Monitoring Officer's report be noted.

7/23

GENERAL DISPENSATIONS REPORT

The General Dispensation Report was presented for Members' consideration and it was explained that the purpose of this report was to

provide members with an opportunity to consider and agree a number of general dispensations for all Councillors.

It was noted that as the first Committee meeting of the municipal year was taking place earlier in the year than normally, there was not enough time to discuss and consider with Members any individual dispensations they might wish to apply for. As a result a separate report on individual member dispensations would be brought to the next meeting of this Committee.

A query was raised with regards to the granting of a dispensation to Members of the Committee (who also sat on the Artrix Holding Trust) on matters relating to Artrix. It was the view of the Monitoring Officer that at this point it would be preferable to discuss this matter with each Committee Member who sat on the Artrix Holding Trust individually. It was highlighted that any matters relating to the affairs of Artrix were the remit of the Artrix Holding Trust. However, some matters relating to Artrix more generally might also need to be referred to at meetings of other committees. Nevertheless, Members would normally need to apply for any specific dispensations of such nature individually.

RESOLVED that:-

- 1) the Audit, Standards and Governance Committee grant a dispensation under Section 33 (2) of the Localism Act 2011 to allow Members to address Council and Committees in circumstances where a member of the public may elect to speak;
- 2) subject to the caveat set out in paragraph 3.6 of this report in relation to setting the Council's Budget, the Audit, Standards and Committee grants dispensations under Section 33 (2) of the Localism Act 2011 to allow all Members to participate in and vote at Council and Committee meetings when considering the setting of:
 - a) the Budget;
 - b) Council Tax;
 - c) Members' Allowances; and
 - d) Non-Domestic Rates – Discretionary Rate Relief Policy and Guidance affecting properties within the District;
- 3) it be noted that all dispensations granted by the Committee take effect on receipt of a written request from Members for such a dispensation and where Members may have a Disclosable Pecuniary Interest in the matter under consideration, which would otherwise preclude such participation and voting; and
- 4) it be noted that the dispensations referred to at resolutions (1) and (2) will remain valid until the first meeting of the Audit, Standards and Governance Committee following the next District

Council Elections in 2027 unless amended by the Committee prior to that date.

8/23

ANNUAL UPDATE REPORT ON REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

The Committee received the Annual Update Report on the Regulation of Investigatory Powers Act 2000 (RIPA). It was reported that traditionally this power was used by service areas such as trading standards and benefits. However, the need for exercising power under RIPA had always been low and had further reduced in recent times. It was also noted that the Council would seek to exercise its power under RIPA only in cases of serious crime risk in any case.

RESOLVED that:

- (1) the Council's RIPA Policy (version 8.2) be endorsed; and
- (2) the update on RIPA activity as described in this report be noted.

9/23

GRANT THORNTON - EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE

The External Auditors from Grant Thornton presented a report on progress in delivering the external audit function for the Council and provided a wider audit sector update.

It was recalled that a draft version of the Council's 2020-21 financial statements was presented to Members of the Committee in December 2022, however, the Council's Section 151 Officer had not signed off these statements to date and thus financial statements for 2020-21 had not yet been submitted to the External Auditor. It was acknowledged that this was due to the Section 151 Officer awaiting the conclusion of the External Auditor's work on opening balances before signing the draft 2020-21 financial statements.

The External Auditor reported that testing had been performed on the data migration event from the Council's legacy financial ledger, eFinancials, to the new financial ledger supplied by TechnologyOne. Testing involved the selection of 25 transactions from the eFinancials reports to the TechnologyOne system and 25 transactions from the equivalent TechnologyOne transactional reports to the eFinancials system and checking that they had been migrated appropriately. No issues had been identified during this testing.

It was explained by the External Auditor, however, that the number of transactions tested represented a negligible volume of total transactions processed in the data migration event and the External Auditor had been unable to gain sufficient assurance on the basis of this testing that the whole data migration event was performed correctly. Furthermore,

random anomalies had been identified by Council's finance officers in their own work on data migration.

As a result automated solutions for gaining assurance over the transferred data through testing back-ups taken from the eFinancials system were currently considered as this would provide a much broader coverage of data than could be tested manually. The Interim Director of Finance commented that enquiries had been made with the legacy financial ledger provider, eFinancials, about re-gaining access to transactional reports from that system. This would necessitate a contract extension.

It was noted that 31st May 2023 was the statutory deadline for local authorities to submit the draft 2022-23 financial statements to their external auditors. The Council was significantly behind in terms of completion of its Accounts audits, and the Committee was reminded the Council was issued with statutory recommendations under Section 24 of the Local Audit and Accountability Act 2014 primarily for non-delivery of its 2020-21 Statement of Accounts.

The External Auditor reported on their Value for Money responsibilities and in doing so noted that an Interim Auditor's Annual Report for the 2020-21 financial year was provided to the Committee in November 2022, and it was anticipated that a joint Interim Auditor's Annual Report for financial years 2021-22 and 2022-23 would be issued later in the year.

It was reported that there was a likelihood of external audit fee variation due to the impact of delays in financial reporting and the impact of the Section 24 Notice being issued to the Council. The original fee proposed for 2020-21 audit work of Bromsgrove District Council was around £61,000. It was reported that given the work requirements the final fee could exceed £100,000. Any proposed fee variations would be subject to discussions with council management and would have to be submitted for consideration by Public Sector Audit Appointments Limited (PSAA) in their capacity as an external auditor appointer under the audit appointments scheme.

Members asked a number of questions of the External Auditors and Council Officers to which the following responses were provided:

- Indicative dates for completion of outstanding audits of the Council's financial statements were provided. It was currently estimated that the external audit of 2020-21 financial statements would be finalised in November 2023, the audit of 2021-22 financial statements in June 2024, and the 2022-23 financial statements in November 2024. It was highlighted, however, that this was the best-case scenario and slippage on this indicative timeframe was possible, especially on the 2021-22 financial statements indicative date.

- The Interim Director of Finance and Section 151 Officer explained that the non-submission of the draft 2020-21 Accounts to date was due to the possibility of the External Auditor not agreeing with the data take on balances at this point which could lead to the issuing of qualified accounts. At the moment, discussions were taking place to re-access data on the legacy ledger system, eFinancials, which would help the External Auditor to gain assurance over the data take on process.
- It was reported that the Council had around £5 million in general reserves and around another £5 million in earmarked reserves which meant there was no imminent financial danger to the Council. In the Local Government Association (LGA) Corporate Peer Challenge the Council was deemed to be mid-table among lower-tier local authorities in respect of its financial position. It was added that in the opinion of the External Auditor the Council was transparent about its financial challenges in the Medium Term Financial Plan (MTFP).
- It was noted that the financial position of the local authority sector over the medium to long term was currently unsustainable as local authorities relied heavily on central government revenue funding allocations which had been cash flat or negative for a number of years, and this was coupled with challenges such as inflation. These factors increased the likelihood of councils having to increasingly utilise its reserves to support revenue budgets, which was unsustainable.
- The External Auditor reported that the risk of the Council being re-issued with Section 24 Notice was low as progress was being made against the recommendations in the Notice. Progress in finalising the 2021-22 Accounts would determine if another Section 24 Notice was required.
- With regards to the external auditor appointment, it was reported that Grant Thornton would remain responsible for auditing the Council's Statements of Accounts for 2020-21, 2021-22 and 2022-23. From 2023-24 the Council's Accounts were to be audited by Bishop Fleming LLP who were appointed through the Public Sector Audit Appointments (PSAA) scheme. It was added that Bishop Fleming could begin to undertake transactional analysis and value for money work for 2023-24 but would not be able to undertake audit work on the 2023-24 Accounts until the financial statements for previous years had been audited.
- The loss of key staff members was reported as the main risk for the Council. It was noted that the loss of the corporate finance team staff at the time of the new ledger system launch was one of the key reasons that led to subsequent issues with submissions of financial statements. It was reported that currently there were only a couple of vacancies in the Council's finance team.
- The Portfolio Holder for Finance and Enabling addressed the Committee and explained that the Council's financial position had been getting increasingly difficult prior to the appointments of the current Interim Director of Finance and Section 151 Officer and the current Head of Finance and Customer Services. These

appointments, it was reported, had resulted in measurable progress in the Council's reporting of finances and in more decisive actions being taken on balancing the budget.

- Members were assured that the External Auditor was fully staffed for auditing the Council's Accounts. A dedicated team of auditors was allocated specifically for the audit of Accounts of Bromsgrove and Redditch Councils and the West Midlands Combined Authority (WMCA).
- It was explained that the threshold that would necessitate issuing the Council with qualification on the Statement of Accounts was expressed in terms of the percentage variance between the local authority's gross expenditure against accounted expenditure. For the Council's 2020-21 Accounts this threshold level of variance amounted to around £0.9 million.
- Members queried what safeguards were in place to monitor the Council's expenditure and ensure it was appropriately accounted for. In response, it was reported that the Council had a key decision threshold of £50,000. Any decisions above that amount had to be made by Cabinet. Additionally, it was the Council policy that purchase orders had to be raised for every procurement regardless of value.
- It was reported that no restrictions on spending had been placed on the Council through the Section 24 Notice. It was reported that budgetary constraints remained but these were in terms of ensuring the budget was sustainable, including in the medium to long-term. It was added that most the Council received most of its funds from various central government grants and that Council spending was planned as part of the budget setting. For Bromsgrove the annual spend amounted to around £50 million.
- The Council's vacancy rate was reported at 14.7 per cent which was similar to the national average for staff turnover of around 15 per cent. The service areas where the Council was at higher-risk of staff turnover included housing, planning, building control, and finance staff.

RESOLVED that the External Audit Progress Report and Sector Update be noted.

10/23

QUARTERLY RISK UPDATE

The Interim Director of Finance and Section 151 Officer presented the Quarterly Risk Update and in doing so highlighted that this was now the fourth cycle of reviewing Corporate and Departmental Risks since the original baselining of risks in April 2022. It was also the fourth management report on risk presented to the Committee since the original baselining of risks.

It was reported that there were 13 Corporate Risks, including a risk related to the Cost of Living Crisis. Since last reporting, a new Corporate Risk had been included which related to the replacement of the

Council's existing Customer interface, which was also linked to significant budgetary savings in the 2025/26 financial year.

There were now 51 Departmental Risks of which 1 was a red risk related to Revenues - Performance Indicator data which was not deemed robust as it could not be system generated. It was reported that it was unlikely the number of risks could be further reduced as these were now mostly linked to compliance. In addition, the Worcestershire Regulatory Service (WRS) Risks, reported to its board on a quarterly basis, were included at Appendix B. The significant risk for WRS centred around finance and contracts with other local authorities.

It was reported that cyber security presented probably the greatest risk for the Council and the local authority sector at large. The sector was particularly affected by cyber-attacks and Officers commented that there were now less insurers willing to offer cyber insurance services. It was reported that this was considered by the Audit, Governance and Standards Committee at Redditch Borough Council (Minute No. 25 – Quarterly Risk Update) with a motion agreed by that Committee recommending that the Local Government Association (LGA) facilitate a process to assist the local government sector with the deficiency in the cyber security insurance market.

It was reported that Councils needed to have two-factor authentication for accessing Council systems as a requirement to obtain cyber insurance. This was in place for Bromsgrove District Council. Additionally, other measures were taken to improve cyber security at the Council including a mandatory cyber security training for all staff and periodic phishing tests undertaken across the organisation.

Following the presentation, a number of questions were asked to which the following answers were provided:

- It was stated that Artificial Intelligence (AI) solutions were being considered by the Council in areas such as customer interface and preparation of job descriptions, as part of work on replacing the current customer access portal. Parts of customer interfaces were already automated. It was noted that the Council needed to be fully assured of the safety of any technologies such as AI before any implementation could be undertaken.
- It was reported that the Council's financial ledger system was hosted on a cloud by TechnologyOne, the supplier, which meant it was possible for the company to access the Council's data, in case of, for example, performing IT maintenance work on the system. This access was, however, bound by contractual agreements and protected against access for unauthorised purposes.
- There was a remote back-up process for data hosted on the financial system and Officers undertook to report back to Members on the frequency with which back-ups were taken.

RESOLVED that the present list of Corporate and Departmental Risks be noted.

11/23

FINANCIAL COMPLIANCE REPORT INCLUDING PROGRESS UPDATE ON STATEMENTS OF ACCOUNTS

Members were informed that the Accounting Policies Report before the Committee provided details of the financial governance framework under which the Council operated and the legislative reporting requirements for reporting to central government in respect of financial compliance.

One of the legislative reporting requirements the Council had not met was the delivery of the 2020/21 Statement of Accounts. As such, the Council was issued with a Section 24 Statement.

The Committee was informed that a requirement was now in place for the Council to publish any spending that exceeds £500 on a monthly basis.

It was reported that 83 staff members attended the 2022-23 Budget Manager Closure training at the end of March which represented a positive level of engagement in the budget process from the organisation.

It was noted that the Council's 2023/24 Budget was approved in February. Budgets were now loaded and a draft budget book was being prepared to assist in Members understanding the Budget. In terms of the budget process, Members were informed that a provisional outturn report would be presented to Cabinet at its July meeting.

In terms of the Council's financial system, TechnologyOne, it was reiterated that Bromsgrove and Redditch were the only authorities in the UK using the company's cash receipting solution. It was further reported that an upgrade to the TechnologyOne system would be taking place from version 2023B to 2023A.

Following the Financial Compliance Report presentation, Members asked a number of questions to which the following responses were provided:

- It was highlighted that the Council developed the bespoke financial system solution for the Council jointly with TechnologyOne, including the cash receipting solution, and that the company partly refunded the Council in the fall of 2021.
- The cash receipting solution originally operated under 1 back office but a problem developed as there were 3 separate entities (Bromsgrove District Council, Redditch Borough Council, Rubicon Leisure) to which transactions needed to be assigned. It was reported that there were now 3 separate back offices in place on the system.

- It was noted that the Council decided not to implement the HR/payroll part of the TechnologyOne Enterprise Resource Management (ERP).
- In terms of lessons learned, it was explained that a Bromsgrove Audit Task Group was set up in response to the Council being issued with a Section 24 Statement and this Group had made a number of recommendations to address the failures identified with the ERP system implementation and to improve the Council's future project delivery. One of the Audit Task Group's recommendations that had now been implemented was the creation of a permanent Project Management Office. This would support the delivery of a full range of projects undertaken by the Council.
- Members questioned how residents could be reassured that the Council continued to deliver value for money and used its resources to the best effect, in the light of the Section 24 Statement issued to the Council in October 2022. Officers responded that the Council needed to be more proactive in communicating with the public on its financial position, highlighting strengths as well as challenges. It was also noted that substantial efforts continued to be made to make Council spending as transparent as possible – for example, with all staff being required to raise purchase orders regardless of the procurement value.

RESOLVED that:

- 1) The Accounting Policies being used, their source and associated Governance Arrangements be noted;
- 2) This report come to each Audit, Standards and Governance Committee meeting to alert Members to possible no compliance issues;
- 3) That progress on the 2020/21 Audit process be noted.

12/23

INTERNAL AUDIT ANNUAL REPORT & AUDIT OPINION 2022/23

The Head of Internal Audit Shared Service for Worcestershire Internal Audit Shared Service (WIASS) presented the 2022/23 Internal Audit Annual Report and Audit Opinion and in doing so noted that the Annual Report was an amalgamation of all Internal Audit Progress Report that the Committee received over the 2022/23 municipal year.

It was reported that the internal audit outcomes from reviews were shared on an ongoing basis with the External Auditors to assist them in gaining assurance around the Council's processes. Audit follow-ups in areas of key risk or where insufficient assurance had been gained previously showed an overall positive trend with management and service areas concerned implementing any follow-up recommendations

in a timely manner. There had been no exceptions that needed to be reported to the Committee during 2022/23.

It was noted that Appendix 1 to the report provided the overview of delivery of internal audit in the last year and it was reported that Debtors and Main Ledger received limited assurance and this was linked to issues with the cash receipting module of the new ledger system.

Appendix 2 provided the Annual Audit Opinion of the Head of Internal Audit Shared Service in his capacity as the Council's Chief Internal Auditor. It was the opinion of the Internal Auditor that enough coverage in terms of internal audit had been provided in 2022-23 and that the implementation of the new finance system had created risk hotspots which were reported as being addressed by the Council.

Appendix 3 was the Internal Audit Charter of WIASS, which would be updated throughout the current municipal year, mainly around categorisation of assurance. Any proposed changes would be brought to Members of the Committee for consideration.

Following the report presentation, Members asked about the selection criteria for areas of internal audit. It was responded that a risk-based approach was adopted for selecting areas for internal audit. Discussions would also take place with management around which areas presented high risk for the Council. In the Council's current situation there was also a focus on monitoring the situation around the Council's financial ledger system until the Council was up-to-date with audits of its financial statements.

A question was raised about the meaning of internal audit acting as a 'critical friend' and it was clarified that this methodology sought to adopt a preventive approach to audit where issues identified were discussed with management and support and advice provided at an early stage to assist in providing remedial actions. Nevertheless, internal audit, through its risk-based audit and assurance work, remained independent of the Council with the aim of arriving at objective opinions on how the council operates.

RESOLVED that the 2022-23 Internal Audit Annual Report and Audit Opinion be noted.

13/23

INTERNAL AUDIT PLAN 2023/2024

The Head of Internal Audit Shared Service for Worcestershire Internal Audit Shared Service (WIASS) presented the draft Internal Audit Plan for 2023/24. It was explained that the coverage of the Plan had been based upon the Council's risk priorities as per the Corporate and Departmental risk registers. Areas of large budgetary spend areas had also been considered, along with areas that had direct association to the Council Plan.

The Internal Audit Plan could be used for monitoring of the internal audit programme throughout the year and any changes to the Plan would be reported before the Committee. Progress against the Plan was to be reported on a quarterly basis.

A question was asked in respect of the meaning of the acronym NNDR and it was explained that it stood for National Non-Domestic Rates, otherwise Business Rates, which was a statutory tax levied by central government (and collected by local authorities) on non-domestic, commercial property.

RESOLVED that the 2023-24 Internal Audit Plan be approved.

14/23

ANNUAL APPOINTMENT OF RISK CHAMPION

The Chairman asked for nominations for the role of the Council's Risk Champion for the municipal year 2023-24. A nomination was received in respect of Councillor B. M. McEldowney. On being put to the vote it was

RESOLVED that Councillor B. M. McEldowney be appointed as Risk Champion for the municipal year 2023-24.

15/23

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

The Committee Work Programme was submitted for Members' consideration.

RESOLVED that the Audit, Standards and Governance Committee Work Programme be noted.

The meeting closed at 8.00 p.m.

Chairman