

Bromsgrove District Council

Section 24 Statutory Recommendations

31 October 2022



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](#)

Key Audit Partner
Grant Thornton UK LLP

Grant Thornton UK LLP

2 Glass Wharf
Temple Quay
Bristol BS2 0EL

+44 (0)117 305 7600

+44 (0)117 955 4934

grantthornton.co.uk

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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