

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

9TH MARCH 2023, AT 6.00 P.M.

PRESENT: Councillors S. R. Colella (Chairman), A. J. B. Beaumont, R. E. Jenkins, J. E. King and P. J. Whittaker, and B. McEldowney (Parish Council's Representative).

Observers:

Councillor G. Denaro – Portfolio Holder for Finance and Governance (on Microsoft Teams),

Mr. J. Murray – Grant Thornton (on Microsoft Teams),

Ms. H. Whiting – Head of Human Resources & Organisational Development, City of York Council [until 7.00 pm]

Mr. P. Stachniewski – LGA Associate on Finance [until 7.00 pm]

Officers: Mr P. Carpenter, Mrs. C. Felton and Mr. A. Bromage, Mrs. J. Bayley-Hill (on Microsoft Teams) and Mr. M. Sliwinski.

53/22

APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES

Apologies for absence were received from Councillors A. Kriss, M. Middleton, and C. Spencer.

54/22

DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS

There were no declarations of interest nor of any party whip.

55/22

TO CONFIRM THE ACCURACY OF THE MINUTES OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 19TH JANUARY 2023

The minutes of the Audit, Standards and Governance Committee held on 19th January 2023 were submitted.

RESOLVED that the minutes of the Audit, Standards and Governance Committee held on 19th January 2023 be approved as a correct record and signed by the Chairman.

56/22

STANDARDS REGIME - MONITORING OFFICERS' REPORT

The Head of Legal, Democratic and Property Services presented the Monitoring Officer's report and in doing so highlighted that since the last meeting a new complaint had been received from a member of the public against a District Councillor. This was managed through the local

resolution process and the complainant was satisfied with the resolution process adopted. It was also noted that the one outstanding complaint reported at previous meetings remained live as of this meeting.

Regarding member training and development, the Committee was informed that the Member Development Steering Group meeting planned for 8th March 2023 had to be cancelled and this would be rearranged. It was noted emergency planning training had been delivered to Members since the last meeting.

It was reported that the Constitution Review Working Group met on 26th January 2023. The outcomes of this meeting were to be reported to the Annual Council meeting in May 2023.

RESOLVED that the Monitoring Officer's Report be noted.

57/22

AUDIT TASK GROUP FINAL REPORT FOR THE ROOT AND BRANCH REVIEW OF HOW THE COUNCIL ARRIVED AT THE SECTION 24 NOTICE (TO FOLLOW)

The Chairman of the Committee presented a summary of the final report of the Audit Task Group ('Audit Group') into causes of how the Council arrived at the Section 24 Notice under the Local Audit and Accountability Act 2014. The Chairman highlighted that the recommendations contained in the final report would provide important learning points for the Council for undertaking future projects of similar nature.

The Chairman reported that the Audit Group undertook a thorough investigation of the matter which entailed reviewing various background documents, including, amongst other things, minutes of meetings of the project board that was set up by Bromsgrove District Council (BDC) in the autumn of 2019 to implement the BDC's new accounts and finance management system, the enterprise resource planning ("ERP") system. Other related relevant information in respect of the implementation of the ERP by BDC was also reviewed and interviews conducted with various Officers involved in the implementation of the ERP system. It was noted that the suppliers of the ERP system, TechOne, did not wish to be interviewed as part of this Audit Group investigation.

The Chairman reported that it was the Audit Group's view that the main reason for the Council receiving a Section 24 Notice from external auditors on 31 October 2022 was due to the failure of the cash receipting module of the ERP system and the consequent inability to access financial information on the ERP system which led to the non-delivery of the 2020-21 Statement of Accounts.

It was highlighted that a number of related failures in the ERP project were identified as part of the investigation, and these included:

- The tender scoring documentation which would detail why TechOne was chosen in 2019 to implement the new ERP system was not available to the Audit Group.
- The supplier of the ERP system, TechOne, did not have a suitable cash receipting solution in place and the Council appeared to be the first organisation in the country to work with TechOne on developing a bespoke, untried cash receipting solution.
- There was no clear programme of training for staff on the ERP system and the Council's staff had to rely excessively on self-training in order to learn the system.
- There was no recognised project management framework used by the Council in implementing the new ERP system.
- The former Section 151 Officer did not attend any ERP system implementation project meetings.
- Eleven out of sixteen key finance staff left the Council during the initial stages of the new ERP system going live and this left considerable gaps in skills. Exit interviews did not provide clear answers as to the reasons why these members of staff left or whether the difficulties with the ERP system accounted as one of these reasons.
- There was a failure to provide reports to the Audit, Standards and Governance Committee on progress in the implementation of the ERP system.

The Chairman highlighted that the Council was fully cooperative in allowing this investigation to be undertaken and that no culture issues were identified as part of the review that were deemed to contribute to the failures associated with the ERP system implementation. The Chairman took the opportunity to thank Officers involved in the review for their effort in helping Members to access and scrutinise such an amount of documentation.

The Chairman reported that the recommendations of the Audit Task Group were split into two with the ten recommendations relating to general improvements that the Council should be making in its management of projects and a further five recommendations relating specifically to the ERP system.

Following the presentation of the Audit Task Group Final Report, Officers and Members discussed the report and the following was noted:

- The Head of Worcestershire Internal Audit Shared Service noted that the observations contained in the Audit Task Group report were accurate and correlated with the issues known to internal audit.
- The External Auditor commented that the Audit Task Group report represented a step in the direction of fulfilling one of the five key recommendations issued by the auditors as part of the Section 24 Notice, which related to undertaking a comprehensive review of

the financial ledger implementation and ensuring lessons were learned for future key projects.

- The Interim Director of Finance commented that the process of submitting the Accounts for 2021/22 was expected to be more challenging than for 2020/21. This was as the amounts held in suspense would need to be reconciled for the full 52 weeks for 2021/22 whereas this was an issue for only the last 6 weeks of 2020/21 as the Council moved to the new ERP system on 8th February 2021.
- It was explained that the Council had not faced financial penalties due to late submissions of Accounts. However, Section 24 Notice represented a reputational damage to the Council. If a public interest report was issued to the Council, this would represent an even more severe reputational damage. It was highlighted that whilst there were no direct financial penalties, the Council would likely face an increase in the audit fee charge as a result of additional work required to audit Council's accounts.

RESOLVED that the Audit Task Group Final Report be approved and that the Report and its recommendations be submitted for consideration by Cabinet at its next meeting.

58/22

STATEMENT OF ACCOUNTS - VERBAL UPDATE

The Interim Director of Finance addressed the Committee and in doing so reported that when preparing Accounts for 2020-21 data from the old financial ledger system had to be unpicked and moved to the TechOne system for the majority of the 2020-21 financial year as the move to the new system took place on 8th February 2021. The reporting tool which sat over the old eFin system was now not available to the finance team which made tracking transactions for that period more difficult. It was noted that the transactions recording for the transfer from eFin to TechOne would need to be tested by the external auditors as part of their audit and needed to be signed off before the Council submitted the 2020/21 Accounts. This was not expected to be completed until end of March 2023.

It was estimated that the draft Statement of Accounts 2020-21 would not start to be fully audited by the external auditors until July 2023.

It was reported that in terms of the 2021-22 Accounts the main challenge would be identifying where specific amounts had been allocated on the ledger, with 12 months of cash receipting issues to be resolved.

Following the update and in response to questions by Members, Officers commented that as part of the migration to the new financial ledger system, the old system was not cleansed completely which created significant issues with staff having to unpick transactions that should have been correctly allocated before the transfer to the new TechOne system was made on 8th February 2021.

The External Auditor commented that audit work on 2020-21 Statement of Accounts began in late January 2023 and it was apparent that normal system transfer between the old and new ledger had not taken place. As such the audit of 2020-21 Accounts was expected to take a considerable amount of time.

For 2021-22 it was noted that a significant number of transactions were moving around the ledger which created another set of challenges in auditing those Accounts. The external auditor noted that as such significant control deficiencies with the Council's finance system monitoring would need to be reported by the auditors. The external auditor that issues with the audit of 2020-21 Accounts were expected to lead to a significant variance in the audit fee.

The Interim Director of Finance commented that the issue of outstanding items held in suspense did not affect Council Tax debt but affected some sundry debt.

RESOLVED that the update be noted.

59/22

INTERNAL AUDIT PROGRESS REPORT

The Committee received the Internal Audit Progress Report from the Head of Worcestershire Internal Audit Shared Service. The report before the Committee summarised progress made against the delivery of the Internal Audit Plan 2022/23 as to the end of January 2023. It was noted that Appendix 2 provided a complete overview of the plan and a holistic view of the progress against the plan. It was reported that two finalised internal audit reports were included as part of this agenda at Appendix 3 and both of these related to Core Financials.

The Head of Worcestershire Internal Audit Shared Service reported that National Fraud Initiative (NFI) data uploads had been completed by the required deadline and results were now beginning to be reported back to respective Council departments.

It was reported that Appendix 4 provided full overview of the follow up programme. This was to enable the Committee to be sighted on progress made in resolving issues with a number of previous internal audits where follow-up reports were needed. It was reported that as part of the GDPR – Document Retention 2021-22 Follow Up report there remained a high level recommendation relating to two factor authentication to accessing network. This recommendation was partially addressed, and it was expected to take another couple of months before this recommendation was fully resolved.

The Head of Worcestershire Internal Audit Shared Service commented that routine meetings with the Head of Finance and Customer Services continued to provide ongoing monitoring of the situation around the financial ledger system.

With regards to the Core Financial reports, it was noted that Accounts Receivable continued to receive limited assurance and General Ledger had a no assurance status at the moment due to legacy issues with the financial ledger system.

RESOLVED that the report be noted.

60/22

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE - ANNUAL REPORT 2022-23 (TO FOLLOW)

The Committee's Annual Report for 2022-23, which summarised the work of the Audit, Standards and Governance Committee, was presented for approval.

A typographical error was highlighted in the Annual Report (page 22 of the supplementary documentation pack) relating to internal audit reports. It was noted that one of the internal audit reports that was completed should read 'Interim Auditor's Annual Report and Audit Opinion 2020-21' instead of 'Interim Auditor's Annual Report 2020-21'. The Democratic Services Officer present undertook to correct the mistake.

During the discussion, it was noted that the Council was experiencing significant difficulties, shared across the local government sector, with recruiting accounting officers, especially HRA accountants. This represented a significant block to resolving issues faced by the Council.

The Chairman commented that in his foreword to the Annual Report he suggested that membership of the Committee should be expanded in line with other 'challenge' committees of the Council such as the Overview and Scrutiny Board and that the frequency of Committee meetings should be increased.

RESOLVED that the Audit, Standards and Governance Committee – Annual Report 2022-23 be approved, subject to corrections highlighted by the Committee.

61/22

RISK CHAMPION - VERBAL UPDATE REPORT (COUNCILLOR M. MIDDLETON)

There was no risk champion update as Councillor M. Middleton had submitted her apologies.

It was noted in relation to previous items on the agenda that it was imperative that Officers were trained and followed the PRINCE2 project management methodology when undertaking projects. It was reported that a number of Officers in the Council had already been trained in PRINCE2 project management and could offer expertise in managing Council projects. It was also reported that the Council could utilise the apprenticeship levy to train further Officers in project management. Officers were asked on the number of fully PRINCE2 qualified staff in the Councils.

62/22

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

The Interim Director of Finance addressed the Committee and offered suggestions for items that should be considered at each meeting of the Committee starting from the new municipal year. These items included:

- Risk Management Report
- Report on Financial Compliance
- Internal Audit Plan
- Statement of Accounts update
- External Auditors update
- Risk Champion update.

Members agreed that the suggested items list represented a good selection of items to be considered at each meeting. Members requested that the Committee meet bi-monthly in the municipal year until issues with reconciliation of items in suspense and with submissions of the Council's Accounts had been resolved.

RESOLVED that the Audit, Standards and Governance Committee hold bi-monthly meetings until issues with the submissions of the Statement of Accounts had been resolved.

The meeting closed at 7.42 p.m.

Chairman