

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

14TH SEPTEMBER 2023, AT 6.00 P.M.

PRESENT: Councillors D. J. Nicholl (Chairman), R. Bailes, S. M. Evans, D. Hopkins, B. Kumar, B. McEldowney, S. T. Nock, J. D. Stanley and M. Worrall (Parish Councils' Representative)

Observers: Councillor C. A. Hotham – Cabinet Member for Finance and Enabling, Councillor J.W. Robinson and Councillor S. A. Robinson

Officers: Mr. P. Carpenter, Mrs. C. Felton (on Microsoft Teams), Ms. M. Howell (on Microsoft Teams), Mr. A. Bromage (on Microsoft Teams), Ms. K. Lees (on Microsoft Teams) and Mr. M. Sliwinski

26/23

APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES

Apologies for absence were received from Councillors H. D. N. Rone-Clarke, D. J. A. Forsythe and D. G. Stewart.

27/23

DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS

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

28/23

TO CONFIRM THE ACCURACY OF THE MINUTES OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 17TH JULY 2023

The minutes of the meeting of the Audit, Standards and Governance Committee held on 17th July 2023 were submitted for Members' consideration.

RESOLVED that the minutes of the meeting of Audit, Standards and Governance Committee held on 17th July 2023 be approved as a correct record.

29/23

STANDARDS REGIME - MONITORING OFFICER'S REPORT

The Head of Legal, Democratic and Property Services presented the Monitoring Officer's report and noted that no new complaints had been received since the last meeting of the Committee. The Constitution Review Working Group (CRWG) met on 31st August 2023 and discussed a number of matters including the external review of the Council's

Planning Committee, arrangements for considering Motions and Questions on Notice at Council meetings and arrangements for live streaming meetings. The recommendations arising from this meeting would be considered at the next ordinary meeting of Council in October 2023. It was planned in relation to training that mock meetings of planning and licensing committees would take place towards the end of the calendar year to familiarise the new Members with the operation of these committees.

It was reported that the Governance Systems Task Group had now concluded its investigation with the Overview and Scrutiny Board endorsing the recommendations of the Task Group. The Governance Systems Task Group final report recommendations would be considered at an extraordinary Council meeting on Wednesday 20th September 2023.

Following the presentation of the report, Members asked for clarification with respect to the role of CRWG and it was explained that it was a cross-party group in which Members discussed any potential changes to the Council's constitution. The Working Group could make recommendations to the full Council.

It was also raised that there were several written questions submitted by Members to Chief Council Officers in advance of the meeting, which related to questions on Equal Pay claims and the Council's arrangements about systems in place to ensure the 'single status' agreement was adhered to. It was responded that Officers would work on providing the response and that after information had been collated an item on this matter would be scheduled for the meeting agenda of the Audit, Standards and Governance Committee.

RESOLVED that the Monitoring Officer's report be noted.

30/23

DISPENSATIONS REPORT - INDIVIDUAL MEMBER DISPENSATIONS

The Monitoring Officer introduced the Dispensations Report and stated that the report included new requests for individual dispensations that had been submitted after the report on the matter at the last meeting of the Committee on 17th July 2023. It was noted that under section 33 (2) of the Localism Act 2011, an authority might, on a written request made to the Monitoring Officer, grant a dispensation relieving the member or co-opted member from either or both of the restrictions (relating to participation in discussion and/or voting at meetings of Council and its Committees) imposed by section 31(4) of the Localism Act in cases described in the dispensation.

The purpose of this report was for the Committee to make a decision on whether to grant dispensations that had been submitted in writing to the Monitoring Officer since the last meeting, as included in paragraph 3.8 of the report. It was noted that dispensation requests detailed in paragraph

3.6 were granted at the previous meeting of the Committee and were included for information.

It was explained that dispensations enabled Members to participate in discussion and voting in cases where it was considered appropriate to allow such requests, for example where Members had no pecuniary interest in the matter but one arising from being involved in a matter in another setting, for instance on an outside body or a sub-committee. It was highlighted that there would still be circumstances where Member granted a particular dispensation would not be able to participate as the nature of the issue discussed and interest concerned would be judged such as to preclude the Member concerned from participation.

It was reiterated that the formal granting of dispensations was required under the new legislation, and it was designed to enable Members to take part in political discussions, where deemed appropriate by the nature of the conflict of interest in question.

Prior to the vote taking place on the granting of individual dispensations, Members named in dispensations requests at paragraphs 3.6 and 3.8 of the report confirmed that they would refrain from voting on the matter. This was subsequently the case and as such there were five Members of the Audit, Standards and Governance Committee who took part in the vote on the report recommendations. On being put to the vote, it was

RESOLVED that

- 1) any Individual Member Dispensations (IMDs) and Outside Body Appointments dispensations requested by Members up to the point of the meeting, and as advised by the Monitoring Officer at the meeting, be granted under section 33 (2) of the Localism Act 2011, to allow those Member(s) to participate in and vote at Council and Committee meetings in the individual circumstances detailed;
- 2) 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
- 3) it be noted that the dispensations referred to at resolution (1), 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.

The External Auditor 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 noted that the issues with respect of the 2020-21 financial statements and the transfer of data from the legacy financial ledger system, eFinancials, to the new TechnologyOne system that was undertaken in February 2021 were summarised at the last Committee meeting on 1st June 2023.

It was reported that some progress had been made since that meeting. The External Auditors were able to verify and gain assurance that data reports from the legacy eFinancials system for periods 1 to 11 of the 2020-21 financial year provided real financial data. The data for periods 1 to 11 was now available in the format appropriate for its audit.

It was not possible to date for the Council to provide auditors with data included in period 0 of 2020-21 financial year. As a result, External Auditors had not yet been able to undertake any work on the balance sheet as period 0 transactions were critical for understanding the balance sheet position (the opening position). The Council continued attempts to reinstate their business objects licence for the eFinancials system in order to run a period 0 report and export it into an excel file, as currently the SQL script was returning nil entries for period 0. This would enable work on verification of period 0 balances to be started.

Alongside the work to progress the audit of the data transfer, the External Auditors had undertaken work on specific areas of the 2020-21 financial statements for two weeks from 14th August 2023. This included land and building valuations, the defined benefit pension liability, payroll, senior officer remuneration and housing benefit expenditure. The External Auditor reported that on 15th August 2023 a decision was taken to redirect the audit team to other work as insufficient working papers were provided to External Auditors.

It was reported that the External Auditors would resume work on the 2020-21 financial statements audit in October 2023, with the timeline for audit completion now estimated to be March 2024. With regards to the issue of audit delays across the local government sector, it was reported that the Department for Levelling Up, Housing and Communities (DLUHC) was looking to implement backstop dates for when audits of accounts had to be completed. It was highlighted that this measure was not in place at the moment and would require a change in legislation in order to come into effect. However, the plans were highlighted as, if passed into legislation, the measure might result in a number of local authorities across the country being issued with disclaimer opinions on their accounts – this was as a result of the scale of the backlog in the audit of public bodies accounts across England.

It was stated that a joint Auditors Value for Money Annual Report for 2021-22 and 2022-23 financial years would be prepared and it was

expected that this would be reported to the Audit, Standards and Governance Committee in this calendar year. It was noted that issues with respect to a lack of timely and relevant financial monitoring reporting that were identified in the interim Auditors Annual Report for 2020-21 had now been largely addressed through regular financial monitoring reports to Members. However, this would again be reported as a governance weakness in the Joint Auditors Annual Report for 2021-22 and 2022-23 because this concerned the financial year 2021-22.

It was reported that the External Auditors had certified the Authority's annual Housing Benefit Subsidy claim as in accordance with procedures agreed with the Department for Work and Pensions (DWP). The work on 2021-22 subsidy claim certification was expected to be concluded within the next month.

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

- With respect to the July 2023 meeting between the External Auditors and key members of the Council's finance team, ICT, and the project manager involved in the implementation of TechnologyOne ledger system, it was questioned why representatives from the company (TechnologyOne) were not in attendance. It was explained that because the Council had a 'software as a service' contract with TechnologyOne, the company's representatives were not obliged to attend Council's internal or committee meetings.
- In respect of the possibility of the External Auditors not being able to obtain verifiable financial data for period 0 of the 2020-21 financial year, the External Auditor stated that at this point their expectation was that conclusion on data migration would be in place by the time External Auditors would resume their work on the Council's financial statements in October 2023. Officers added that the licence with the providers of legacy ledger system, eFinancials, had now been reinstated for 5 years, which was to allow the Council to regain access to business object reporting data on that system with respect of period 0 of 2020-21 financial year. Two more technical experts would also be engaged by the Council to speed up work in this area.
- With respect to the insufficient quality of data provided to External Auditors in August, it was stated that quality of information with respect to pensions, payroll, and land and buildings valuations among others was deemed of insufficient quality for External Auditors to start work in August. Officers stated that the Council was in the process of providing papers but that some data was deemed of insufficient quality by External Auditors, for example with respect to land and property valuations as the Council had the documents in a text formatting file version rather than the final portable document format (pdf) required. Members expressed concern about the fact that auditors were withdrawn from audit because of a lack of appropriate document versions. It was

clarified by the External Auditor that the lack of this document version for land and property valuations was indicative of a wider set of issues with quality. The External Auditor stated their audit work dates were planned in advance, and it was company policy to move staff to other audit work in such situations. However, this was not an indication that work on the Council's Accounts would be paused indefinitely or stopped.

- It was highlighted that delays to the audit process resulting from insufficient data would result in audit fee cost implications. It was estimated that the audit of 2020-21 Accounts could result in a cost to the Council exceeding £100,000. It was reiterated that any fee payable would need to be agreed through Public Sector Audit Appointments (PSAA) adjudication process.
- Members were reassured that there was no impact to residents, including in terms of payments, as a result of the national delays to certification work on Housing Benefit claims.
- With regards to legacy issues with financial monitoring reporting, it was stated that the auditor was required to report on any issues as soon as they come to light under the Value for Money arrangements. The financial monitoring issue, although now largely resolved, would need to be reported again in the Joint Auditors Annual Report for the 2021-22 financial year as this was the period in which the issue was occurring.
- It was underlined that significant audit delays were experienced across the local government sector with over 500 outstanding sets of local authority accounts still to be audited.

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

32/23

INTERNAL AUDIT - PROGRESS REPORT

The Committee received an 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 2023/24 as to the end of July 2023. It was noted that there were residual audits to complete from the 2022/23 Plan with one review finalised since the last Committee meeting relating to Benefits and further three reviews awaiting management sign off.

Regarding the 2023-24 Internal Audit Plan there was a small delay reported in July to two areas of audit work due to a key officer on extended leave. These two areas had now been progressed (as of the date of this meeting).

It was reported that National Fraud Initiative (NFI) data set uploads were planned for December 2023 and January 2024. The results from the 2022/23 uploads were currently being investigated by the various Service areas who were investigating and taking appropriate action on the results.

It was noted that there were several follow up audits due which would be reported to the next Committee meeting. There were no exceptions to report at this meeting.

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.

Following the report presentation, the Committee discussed a number of matters relating to the report with the following comments and answers to questions noted:

- It was explained that the internal audit service allocated indicative time budgets for each authority it had arrangements with. As Bromsgrove and Redditch had shared service arrangements the total budget was split equally between the two authorities, however, in some cases a professional judgment would need to be made to allocate less or more days to either authority. Any adjustments to the time budget allocation were discussed with the authority's Section 151 Officer prior to implementation to ensure neither authority was adversely impacted. Within the internal audit plan, there were contingency time budgets in case such adjustments were required. It was reiterated that there were separate audit plans for Bromsgrove and Redditch.
- Members asked whether the Council had whistleblowing and anti-fraud policies in place. Officers explained that such policies were in place and that, following comments from Members, there would be an action to make these policy documents more visible and accessible on the Council's website.
- It was reported that the Council had to hire a number of agency staff due to the high staff turnover experienced across the local government sector, especially in key finance positions. It was added that with agency staff the Council did not cover pension and certain other costs associated with an employee so there was a marginal cost benefit to the Council at the moment. It was added that whenever possible the Council tried to employ staff on a permanent basis, exemplified by agency staff in the finance team who recently transferred into the Council's payroll.
- In terms of the Council's strategy to recruit and retain new staff, it was noted that the Council had recently launched a Workforce Strategy and as part of the last year's budget process the Council had created career graded posts in certain areas. It was reported that where the Council hired apprentices they could not be contractually tied to stay at the Council.
- It was noted that the Worcestershire Internal Audit Shared Service had a staff of 8 people. It was noted that in cases of a long-term sickness or absence of a staff member within the shared service team, there could be an impact on the delivery of the internal audit plans for the authorities under the arrangements. However, it was noted that any decisions on

deferral or rearrangement of internal audit reviews would only be taken based on professional judgment and consultation with key Council Officers.

RESOLVED that the report be noted.

33/23

FINANCIAL COMPLIANCE REPORT INCLUDING UPDATE ON STATEMENTS OF ACCOUNTS

The Committee considered the Financial Compliance Report which noted, as at the end of June, progress with the 2020/21 Statement of Accounts, the 'budget book' for 2023/24 and key deliverables as required by legislation and government.

It was highlighted that the key issue remained the closure process for 2020-21 Statement of Accounts with work still undertaken by the Council and the External Auditors to validate the take on balances. It was now expected that the sign-off of the 2020-21 Accounts for external audit would take place in November 2023 with the audit expected for completion in spring 2024.

It was noted that a number of key legislative deliverables had recently been submitted to Central Government, however, the key returns that remained outstanding for the Council were the Revenue Outturn forms for 2020/21 and 2021/22 and the VAT returns. The draft Capital Outturn forms for 2020/21 through to 2022/23 had been submitted, however, the final Capital Outturn and draft Revenue Outturn returns could not be submitted until the accounts had been audited. It was noted that although the Government now allowed these returns to be completed based on estimates, the level of uncertainty due to the Cash Receipting issue meant that these returns could not be completed until the External Auditors sign off the Council's take on balances and the Council provides the draft accounts to Audit.

It was reported that measures were in place to improve procurement processes including the 'No Compliance No Order' process that had been live since April 2023, and all contracts requiring renewal over the existing £50,000 key decision threshold being reported to Cabinet through quarterly Finance and Performance Monitoring Report.

It was repeated that there were provisional plans for the Department for Levelling Up, Housing and Communities (DLUHC) to introduce backstop dates for when audits of accounts had to be completed with provisional deadlines for local authorities to have audits of 2020-21 statements of accounts signed-off by auditors was 31st March 2024 and September 2024 for 2021-22 statements of accounts. It was reiterated that this measure was not yet in place and would require a change in legislation in order to come into effect. However, it was a concern that, if passed into legislation, this measure might result in local authorities across the country being issued with disclaimer opinions on their accounts, including qualified or no opinions. This would have implications for local

authorities in terms of accessing credit and finding contractors. It was highlighted that there were still over 500 outstanding local authority audits and given the backlog and capacity issues across the audit sector, it was difficult to see how the deadlines proposed could be met by local authorities concerned.

In response, a suggestion was made by a Member that local accounting firms could be approached to help the Council with auditing their accounts given the scale of work still to be undertaken to catch up on the Council's accounts process. Officers commented that this suggestion would be considered.

During the discussion, Members highlighted that without audited financial statements the Council could not be certain about its financial position which was a concern. In terms of the scale of possible misstatements on the Council's Accounts as a result of the issues experienced, it was highlighted that there were public sector auditing standards with regards to materiality thresholds, which concerned the 2 per cent threshold for misstatement in the Council's financial statements in comparison to the authority's annual gross expenditure that would trigger a materiality concern. The level for Bromsgrove District Council based on this amounted to around £800,000.

During the discussion, a recommendation was proposed with regards to asking Cabinet to ascertain from the Department for Levelling Up, Housing and Communities (DLUHC) further detail on the Department's plans for speeding up the local authorities' audit process. On being put to the vote it was

RECOMMENDED that Cabinet ascertain from the Department for Levelling Up, Housing and Communities (DLUHC) the mechanism for audit of local authorities' accounts to be caught up as per their press release.

34/23

FINANCIAL SAVINGS MONITORING REPORT

The Interim Director of Finance introduced this report and in doing so explained that the Council was able to make additional savings of circa £1 million accounted for over the 2023-24, 2024-25 and 2025-26 financial years as a result of the favourable outcome of the triennial pension fund valuation. The next valuation was to be undertaken in the 2026-27 financial year. Other savings areas were highlighted. For example, savings stemming from service reviews were expected over the current medium term financial plan period, however, the implementation of the digital customer front door was a risk that would need continuing monitoring. Additionally, one-off savings were expected from recovering old debt (engaged capacity grid). The Council had around £6 million in uncollected debt, and it was expected that around 10 per cent of that figure might be recovered.

It was reported that the full year overspend position amounted to £788,000. Around three quarters of that overspend was due to pressures within the Environmental Services. This imbalance was mainly due to the staff pay award and the fact that the majority of the staff employed by the Council were employed within Environmental Services. Officers commented that a pay award offer for the local government sector was 6.8 per cent for the current financial year. It was commented that following last year's pay award of over 6 per cent, if confirmed, this offer would represent another year of pay awards in excess of 2 per cent, which was unprecedented.

To offset the impact of this, it was proposed in the Q1 Finance and Performance Monitoring Report going to Cabinet that the assumed yearly drawdown of £351,000 from the Utilities Reserve be made, given the lower-than-expected impact of utilities inflation, to mitigate the overspend position. This would leave a £437,000 overspend position. The ongoing 2023/24 pay increases position, once finalised and ratified later this year, would then need to be resolved as part of the 2024/25 Medium Term Financial Plan (MTFP) process. It was proposed that in the budget the percentage increase anticipated for ongoing pay awards be raised to 3 per cent.

In response to a question about the risk to the Council resulting from equal pay claims, especially in the context of the situation at Birmingham City Council, it was commented that the Human Resources team at the Council had been contacted to compile a response. It was noted that in Birmingham the issue seemed to result from bonuses being paid to some categories of workers but not others.

It was clarified that the Council presently had an estimated £5.226 million in General Fund Reserves to cover one off issues, and a further £5.502 million in Earmarked Reserves for specific purposes. Accessing these was the only recourse available to the Council, apart from additional reductions in spending/additional income, that the Council had to mitigate the present overspend position. It was also reported that in net terms the overspend position was £437,000 but in addition there was an ongoing overspend issue due to the pay award of around £800,000.

It was reported that tranche 1 report on the Medium Term Financial Plan 2024-25 to 2026-27 would be reported in December 2023 this year and this would be looking at identifying further sources of possible revenue including Council Tax and Fees and Charges.

RESOLVED that progress on 2023-24 Departmental Savings be noted.

35/23

RISK CHAMPION - VERBAL UPDATE REPORT (COUNCILLOR B. MCELLOWNEY)

Councillor B. McElDowney, the Council's Risk Champion, provided a risk champion update and in doing so reported that he contacted the Chief Executive Officer regarding the recent issue of a Section 114 notice at

Birmingham City Council and, relating to this Bromsgrove District Council's arrangements for equal pay and pay disputes. The email regarding this had been acknowledged and a response to questions raised by the Risk Champion would be provided in due course. Members present asked that they be included in any communication between Officers and the Risk Champion so that they were kept up to date on this issue.

Members were asked to contact Officers in case any training on specific matters was required.

RESOLVED that the Risk Champion update be noted.

36/23

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

It was requested that a report to ascertain the scale of historic use of reinforced autoclaved aerated concrete (RAAC) in Council-owned buildings be added to the Committee's Work Programme for the meeting in November. With regards to this item, it was asked that the inspection of site drawings be followed up by site inspections to check the accuracy of the records that the Council held.

It was also requested that an item regarding the Council's Biodiversity Policy and the auditing of the Council's legal requirement under section 40 of the Natural Environment and Rural Communities Act 2006 (as updated by section 102 of the Environment Act 2022) to enhance biodiversity be added to the Committee's Work Programme be added to the Work Programme for the November meeting. It was reported that this might be outside the scope of this Committee and more appropriate for the Overview and Scrutiny Board to consider. Officers would provide clarification on this outside the meeting.

RESOLVED that the contents of the Audit, Standards and Governance Committee Work Programme be updated as per the pre-amble above.

The meeting closed at 7.58 p.m.

Chairman