



26 November 2024

To Audit, Standards and Governance Committee Chair  
Cllr Harrison Rone-Clarke  
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Dear Cllr Rone-Clarke,

**Bromsgrove District Council: Conclusion of the audit for 2020/21, 2021/22 and 2022/23 – letter to those charged with governance on the application of the local authority backstop**

As you will be aware, on 5 September 2024 parliament approved the Accounts and Audit (Amendment) Regulations 2024. These Regulations, which came into force on 30 September 2024 set a publication date for financial statements up to and including 2022/23 of 13 December 2024. The new National Audit Office Code which is expected to be approved by Parliament towards the end of October 2024, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Director of Finance and Resources, and for reasons which I set out in more detail below, it will not be possible for us to complete our audits for 2020/21, 2021/22 and 2022/23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer for the attention of the Audit, Standards and Governance Committee.

You will also be aware that to issue an opinion on the financial statements, the Council needs to have published them in draft and completed the relevant public inspection period. The Council did not publish 2022/23 draft financial statements in sufficient time to allow any public inspection period to conclude prior to 13 December 2024, and therefore we cannot issue a 2022/23 opinion at this time. We will seek to do so as soon as is possible following the conclusion of the relevant public inspection period.

We are required under Auditing Standards to report certain matters to the Audit, Standards and Governance Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

**Outcome of our audits for 2020/21, 2021/22 and 2022/23 – Disclaimer of the opinion on the financial statements**

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion. We have attached the draft wording of our Audit Report for your information.

The main reason for the application of the backstop is that the completion of the 2020/21 audit was delayed as the Authority was unable to produce its 2020/21 draft Statement of Accounts due to long-standing issues with its new ledger system in relation to cash receipting which required a resolution.

**Chartered Accountants**

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Resultantly, the 2020/21 draft financial statements were only produced and issued in June 2024. We had agreed with the Council that the audit of the financial statements for the year ended 31 March 2022 and 31 March 2023 would not commence until the previous audit was concluded. This meant there was no realistic prospect of the audit of Council's financial statements for 2020/21, 2021/22 and 2022/23 being completed in advance of the 13 December 2024 backstop.

As we set out above, we will not be able to issue an opinion on the draft 2022/23 financial statements as the Council has yet to complete the required statutory public inspection period after publishing the draft version 22 November 2024.

### **Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice – 2020/21**

We undertook our Value for Money work for the year ended 31 March 2021 and reported the outcome in an interim Auditor's Annual Report presented to the Audit, Standards and Governance Committee on 9 November 2022.

We have nothing to report in respect of the above except on 31 October 2022, we identified and reported significant weaknesses in the Authority's arrangements for financial sustainability, governance and for improving economy, efficiency and effectiveness. This was in relation to:

- The Medium-Term Financial Plan presented to the Cabinet on 17 February 2021, covering the period from 2021/22 to 2024/25 includes savings which are not fully worked up, based on robust evidence and approved by Members. We recommended that any plans presented to Members is completely transparent regarding the financial challenges and any savings schemes are fully worked up and approved by Members in advance.
- In June 2019, the Authority approved a contract for the implementation of a new financial ledger system which would integrate financial, human resources and payroll and supply chain information in a single electronic system. Significant issues remained 19 months after implementation with the cash receipting part of the system not functioning as intended. We recommended that the Authority improve management of key projects to ensure that expected benefits are realised. As part of this, the Authority needs to undertake a comprehensive review of the financial ledger implementation and ensure lesson are learned for future key projects.
- The last performance management report to Cabinet was 30 May 2018, which pre-dates the COVID-19 pandemic and decision makers are therefore unable to publicly monitor the Authority's performance and identify areas for improvement. We recommended that the Authority should review and implement effective governance arrangements in respect of performance monitoring to allow Members to make informed decisions.
- An internal audit report from June 2019 identified significant weaknesses in risk management arrangements and since that date, no formal update reports have been provided to Members nor has a Corporate Risk Register been presented. We recommended that the Authority review and implement effective governance arrangements in respect of risk monitoring to allow Members to make informed decisions.
- There were no clear budget monitoring activities undertaken with inadequate reporting being provided to Members with regards to the financial position of the Authority to allow Members to scrutinise, challenge and make properly informed decisions. This related to 2021/22 and reported it early in our AAR as we were aware of it at the time, arrangements for 2020/21 were appropriate. We recommended that the Authority ensure timely and relevant financial monitoring reporting is undertaken and presented to the appropriate public forum.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We wish to highlight the following information for your attention.

Bromsgrove District Council has been subject to statutory recommendations as outlined below:

- On 31 October 2022, we made one written statutory recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to its financial systems and governance arrangements. We recommended that the Authority should:
  - ensure the Authority has access to the necessary knowledge and expertise to resolve the key issues with the ERP system in a timely manner to provide sufficient assurance over the completeness and veracity of the data included within the systems;
  - 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.

Once system issues are properly resolved, the Authority must:

- 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 working papers;
- conclude the 2020/21 and 2021/22 RO and CO submissions, and other key Government returns include 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.

**Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice – 2021/22**

We undertook our Value for Money work for the year ended 31 March 2022 and reported the outcome in a combined interim Auditor's Annual Report and presented to the Audit, Standards and Governance Committee on 27 November 2023.

We have nothing to report in respect of the above except on 27 November 2023, we identified and reported significant weaknesses in the Authority's arrangements for financial sustainability, governance and for improving economy, efficiency and effectiveness. This was in relation to:

- The last performance management report to Cabinet was 30 May 2018, which pre-dates the COVID-19 pandemic and decision makers are therefore unable to publicly monitor the Authority's performance and identify areas for improvement. We recommended that the Authority should review and implement effective governance arrangements in respect of performance monitoring to allow Members to make informed decisions.
- An internal audit report from June 2019 identified significant weaknesses in risk management arrangements and since that date, no formal update reports have been provided to Members nor has a Corporate Risk Register been presented. We recommended that the Authority review and implement effective governance arrangements in respect of risk monitoring to allow Members to make informed decisions.
- There were no clear budget monitoring activities undertaken with inadequate reporting being provided to Members with regards to the financial position of the Authority to allow Members to scrutinise, challenge and make properly informed decisions. We recommended that the Authority ensure timely and relevant financial monitoring reporting is undertaken and presented to the appropriate public forum.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We wish to highlight the following information for your attention.

Bromsgrove District Council has been subject to statutory recommendations as outlined below:

- On 31 October 2022, we made one written statutory recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to its financial systems and governance arrangements. We recommended that the Authority should:
  - ensure the Authority has access to the necessary knowledge and expertise to resolve the key issues with the ERP system in a timely manner to provide sufficient assurance over the completeness and veracity of the data included within the systems;
  - 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.

Once system issues are properly resolved, the Authority must:

- 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 working papers;
  - conclude the 2020/21 and 2021/22 RO and CO submissions, and other key Government returns include 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.
- on 27 November 2023 we made a statutory recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to its financial systems and governance arrangements. We recommended that the Authority should:
    - produce 'true and fair' draft accounts for 2020/21, 2021/22 and 2022/23 which are signed off by its Section 151 officer. In addition, the accounts must be supported by high quality working papers. Working papers must be subject to internal quality control checks prior to being provided to external audit to avoid further delays.

**Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice – 2022/23**

We undertook our Value for Money work for the year ended 31 March 2023 and reported the outcome in a combined Annual Audit Report and presented to the Audit, Standards and Governance Committee on 27 November 2023.

We have nothing to report in respect of the above except on 27 November 2023, we identified and reported significant weaknesses in the Authority's arrangements for financial sustainability, governance and for improving economy, efficiency and effectiveness. This was in relation to:

- approximately 10% of the Authority's workforce were temporary/interim arrangements and two out of three of the statutory officers are interim, which impacts on the Authority's ability to deliver business as usual as well as strategic extraordinary project. We recommend that the Authority directs effort towards embedding and stepping up the Workforce Strategy objectives and ensure there is commitment at all levels of the organisation to enact succession planning, creative recruitment and development of the workforce.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We wish to highlight the following information for your attention.

Bromsgrove District Council has been subject to statutory recommendations as outlined below:

- On 31 October 2022, we made one written statutory recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to its financial systems and governance arrangements. We recommended that the Authority should:
  - ensure the Authority has access to the necessary knowledge and expertise to resolve the key issues with the ERP system in a timely manner to provide sufficient assurance over the completeness and veracity of the data included within the systems;
  - 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.

Once system issues are properly resolved, the Authority must:

- 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 working papers;
  - conclude the 2020/21 and 2021/22 RO and CO submissions, and other key Government returns include 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.
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    - produce 'true and fair' draft accounts for 2020/21, 2021/22 and 2022/23 which are signed off by its Section 151 officer. In addition, the accounts must be supported by high quality working papers. Working papers must be subject to internal quality control checks prior to being provided to external audit to avoid further delays.

## **Independence**

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

**Management letter of representation**

We have asked management to provide a letter of representation in respect of the financial statements covering 2020/21 and 2021/22. We will ask for a 2022/23 letter to be issued once the draft financial statements have been produced and subject to the statutory public inspection period. This will be tabled as a separate agenda item.

**Looking ahead**

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. You should work with your incoming external auditor on these matters.

Yours sincerely

[Jackson Murray](#)

For Grant Thornton UK LLP

CC Director of Finance and Resources

Attachments: Draft Disclaimer of Opinion 2020/21 and 2021/22

# Appendix

## **Responsibilities**

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bromsgrove District Council. We draw your attention to both of these documents.

## **Scope of our audit**

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Standards and Governance Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit, Standards and Governance Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the authority's business and is risk based.

## **Audit Plan**

An audit plan was issued for the 2020/21 financial year which was considered at the 12 April 2022 Audit, Standards and Governance Committee. We were unable to issue an audit plan in respect of the 2021/22 and 2022/23 financial years.

## **Our approach to materiality**

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for the audit of the year ended 31 March 2021, 31 March 2022 and 31 March 2023.

## **Key financial reporting and audit issues identified during the audit**

As we have not undertaken any detailed work in respect of this year's financial statements audit, there are no issues we need to draw to your attention.

## **Going Concern**

As auditors, we are required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern (ISA (UK) 570).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be

necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates;
- the authority's financial reporting framework;
- the authority's system of internal control for identifying events or conditions relevant to going concern; and
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

### **Design effectiveness of internal controls**

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

### **Other matters which we are required to report on to those charged with governance**

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.



### Audit fees and non-audit fees

PSAA set a scale fee for 2020/21 of £37,484, 2021/22 of £38,984 and 2022/23 of £44,672. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for this audit year.

Based upon the time charged to date, we currently propose fees of:

2020/21 - £41,744  
2021/22 - £20,000  
2022/23 – TBC once financial statements inspection period completed

We have also undertaken the following non audit work in respect of the year.

<b>Audit Service</b>	<b>Proposed Fee</b>	<b>Final Fee</b>
Audit of housing benefits grant return year ending 31 March 2021	£12,500	£15,000
Audit of housing benefits grant return year ending 31 March 2022	£18,000	£18,000
Audit of housing benefits grant return year ending 31 March 2023	£18,400	£26,328

The fees do not reconcile to the financial statements, so we have provided a reconciliation:

	<b>31 March 2021</b>	<b>31 March 2022</b>
Audit fees per financial statements	£61,000	£63,000
Accrual for additional fees	(£23,516)	(£24,016)
Total audit fees per above	£37,484	£38,984
Certification of grants per financial statements	£12,000	£12,000
Accrual underestimated	£500	£6,000
Total grant fees per above	£12,500	£18,000

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total proposed fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.

We have considered whether our grant claim work represents a threat to independence. We are satisfied that it is not a threat, on the basis that grant claim work is carried out under instructions set by government, is undertaken on a routine basis each year, and has been assessed by the NAO in AGN 01 as not counting against the non audit cap.