

Audit, Governance & Standards Committee

Thursday, 21st March, 2024

MINUTES

Present:

Councillor Jane Spilsbury (Vice-Chair in the Chair) and Councillors Salman Akbar, Karen Ashley, Juma Begum, Andrew Fry, Chris Holz, Emma Marshall and Sharon Harvey (Substitute).

Also Present:

Councillor Luke Court – Portfolio Holder for Finance and Enabling
Jackson Murray - Key Audit Partner, Grant Thornton (on Microsoft Teams)
Chris Green – Head of Worcestershire Internal Audit Shared Service (on Microsoft Teams)

Officers:

Peter Carpenter, Bernard Ofori-Atta and Nicola Cummings

Democratic Services Officers:

M Sliwinski

67. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received from the Chair, Councillor Woodall, who was substituted at the meeting by Councillor Sharon Harvey.

Apologies were also received from Councillor Lovell.

In the absence of the Chair, the meeting was Chaired by the Vice-Chair of the Committee, Councillor Jane Spilsbury.

68. DECLARATIONS OF INTEREST

There were no declarations of interest.

Chair

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69. MINUTES

The minutes of the meeting held on 25th January 2024 were submitted for Members' consideration.

RESOLVED that

the minutes of the Audit, Governance and Standards Committee held on 25th January 2024 be approved as a true and correct record and signed by the Chair.

70. PUBLIC SPEAKING

There were no registered public speakers on this occasion.

71. MONITORING OFFICER'S REPORT - STANDARDS REGIME

The Principal Solicitor introduced the Monitoring Officer's report. Details were set out of Member Conduct and Complaints since the last meeting of the Committee. It was reported that investigation of one complaint had been concluded as the external investigator had completed his review. The subject of the complaint was not found to be at fault and no breach of the Code had been found. It was reported that two new Member complaints had been submitted since the last meeting of Audit, Governance and Standards Committee.

It was reported that the Constitutional Review Working Party (CRWP) met on 7th March 2024. At the meeting, recommendation was made to delegate authority to officers for a 12-month trial period in respect of determining application for licences to use vehicles as hackney carriages or private hire vehicles where the vehicle does not meet the Council's criteria in respect of the age of the vehicle. This recommendation would be considered by full Council in the new municipal year. At the CRWP meeting, proposed amendments to the Council's Constitution were also considered and recommendations to Council were made with respect to areas that included shortening the length of the introduction to the constitution and amending Council Procedure Rules.

In response to a question about the costs of the complaint involving external investigator, it was reported that the cost of the investigation in respect of this complaint amount to around £2,000.

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RESOLVED that

the Monitoring Officer's report be noted.

**72. FECKENHAM PARISH COUNCIL REPRESENTATIVE'S REPORT
- STANDARDS REGIME**

There was no update as Feckenham Parish Council Representatives were not present at the meeting. It was reported that an invitation to the Feckenham Parish Council Representatives had been sent on behalf of the Council in advance of this Committee meeting.

**73. GRANT THORNTON - EXTERNAL AUDIT PROGRESS REPORT
AND SECTOR UPDATE**

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.

The External Auditor reported that progress had been made in respect of work on auditing the Council's financial statements. It was reported that in mid-February the auditors received updated workings from the Council on the transfer of balances from Council's old ledger system to the new TechnologyOne ledger. These updated workings were currently being reviewed by auditors; however, it was reported that unreconciled transactions were now reduced to only a minor value. It was stated that the auditors should now be in a position to verify the completeness and accuracy of the transfer of balances within the next couple of weeks.

An update was provided with respect of the 'backstop' date proposed by the Department for Levelling Up, Housing and Communities (DLUHC) which would set a deadline for when all outstanding local government audits up to and including 2022-23 financial year must be finalised. It was highlighted that there remained 700 audit opinions of local authority accounts for various financial years outstanding. In recognition of this situation, consultations by DLUHC and the National Audit Office (NAO) had been undertaken with audit sector stakeholders (including audit firms and local authorities).

At this stage, the Government proposed a backstop date of 30th September 2024 for when audits of local authority accounts up to and including 2022-23 financial year must be finalised. It was

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stressed that under this proposal if the statement of accounts was not finalised by the September date, then auditors would be required to issue a qualified opinion on that set of accounts. Further backstop dates were also set out under the Government's proposal with 31st May 2025 proposed as a backstop date for completion of accounts up to 2023-24 financial year.

It was reported that alongside DLUHC consultation, there was a consultation by the NAO on the Code of Audit Practice which set out potential changes to the work of auditors and how local authority accounts should be audited. Outcomes of either consultation had not yet been published and the implementation of backstop proposal would require a change in legislation.

It was reiterated that at this point, Redditch Borough Council's statements of accounts for financial years 2020-21, 2021-22, and 2022-23 had not been audited. The Council had not yet formally published its draft 2020-21 Accounts. It was noted that in the opinion of the External Auditor if the backstop date of 30th September 2024 was introduced, there would not be enough time to audit these outstanding accounts and backstop disclaimer opinions were likely to be issued for the three financial years. It was highlighted that this was a national issue given the number of unaudited accounts across the local government sector in England.

It was reported that the proposed fee variations for external audit work up to end of December 2023 were included in the report and related to the additional work undertaken by External Auditors in respect of 2020-21, 2021-22, and 2022-23 Value for Money and 2020-21 data transfer work. Public Sector Audit Appointments (PSAA) would need to first consider the proposed variation before it was confirmed. The External Auditor clarified that Redditch Borough Council was fully up-to-date in respect of the Value for Money work.

The Deputy Chief Executive and Section 151 Officer was invited to comment and in doing so noted that the Financial Compliance Report at agenda item 10 contained confidential appendices with Council's responses to the DLUHC and NAO audit consultations. The responses were confidential at the moment as the consultations results had not yet been published. It was currently hoped that the Council would have 2021-22 Accounts ready for audit by the end of May 2024 and 2022-23 Accounts by end of July 2024.

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The Deputy Chief Executive and Section 151 Officer reported that in his response to the consultations he agreed with the backstop proposal in principle but disagreed with the backstop dates proposed as they did not provide enough time for local authority sector to complete outstanding accounts. It was highlighted that as the audit firms were directed to audit of NHS bodies over spring and June, there was only two and a half months left for public bodies' auditors to devote to local authority accounts before the proposed backstop date. It was noted that there was a serious reputational risk for the local authority sector and Redditch Borough Council in case the backstop dates were implemented as currently proposed.

Questions were asked regarding why delays and backlogs in audits were mainly affecting local authorities in England, rather than local authorities in Scotland or Wales, or other public sector bodies such as the NHS. It was responded that among the possible reasons for national differences in audit was that Scotland and Wales had regional audit offices, whereas the English equivalent, the Audit Commission, was abolished in 2012. It was noted that NHS accounts were standardised, for example the NHS Trusts being provided with pro-forma accounts templated by NHS England, making auditing of those accounts easier for the auditors. The NHS shared business service also mostly use the same ledger system which was of additional assistance when auditing those accounts. The complexity of auditing local authorities was usually greater due, for instance, to the authorities owning multiple buildings, having defined benefit pension schemes, investment properties and trading companies – factors which were usually not in scope when auditing NHS bodies.

The Head of Finance and Customer Services commented that the Council was due to submit additional data to the External Auditor in the next few days. It was hoped that following this, the Council's draft statement of accounts could be published on the Council's website in two weeks' time.

Members discussed the report in detail and the following points were raised:

- Backstop dates and the effect on Council's ability to borrow – It was stated that the External Auditor expected that, if the Government's backstop proposal of 30th September 2024 was to be implemented, the Council would receive qualified opinions on its 2020-21, 2021-22, and 2022-23 statements of accounts. An additional question was asked with respect on

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how this would affect the Council's ability to borrow. It was responded that most of Council's borrowing was undertaken through Public Works Loans Board (PWLB) lending (public sector borrowing) and thus there would not be a significant effect on the Council's ability to borrow if it continued to rely on that option for its borrowing. It was added that rules might be tightened with regard to PWLB borrowing but the last change involved adding a percentage point interest on authorities who borrowed with a view of investing for profit.

- Streamlining the Council's auditing process – It was stated that monitoring of some items on the Council's balance sheet was possible and preferable on a quarterly basis as it enabled budget managers to take better view of their budgets and looking at creditors and debtors. However, the two biggest items of spending – property and pension valuations – could only be undertaken towards end of financial year. Therefore, it would be difficult to streamline monitoring of these two items.
- In the course of Member discussion of the above issue, a recommendation was proposed in respect of asking the Executive Committee to include appropriate balance sheet monitoring as part of its quarterly budget monitoring report, to enable all stakeholders to be appraised of the Council's overall financial position. This recommendation was seconded and, on being put to the vote, carried.
- Percentage fee increase on the base budget for 2020-21 audit – It was reported that for 2020-21, Public Sector Audit Appointments (PSAA) set a base scale fee for audit of £44,629. The Audit Plan, presented to the Audit, Governance and Standards Committee proposed an additional £2,500 with respect of External Auditor's work on data transfer and an additional £10,000 with respect of Value for Money work for 2020-21. Based on the time spent by auditors working in these areas, the External Auditor proposed that these fees should be increased to £11,170 and £19,028 respectively. This would amount to a total fee for 2020-21 audit work of £71,292. This was a circa 60 per cent increase on the original base fee. It was reiterated that these interim fee variations would need to be considered by PSAA for determination.

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- It was noted that for financial years 2021-22 and 2022-23 there was a possibility of Council receiving a rebate on its audit fee for financial statement auditing as only Value for Money audit had been done for these years to date. Officers commented that the external audit fees at the moment were not competitive and that higher rates would likely contribute to auditors having greater resources to devote to local audits.
- It was noted that fee variations included in the report were for Redditch Council only.

RECOMMENDED

that the Executive Committee be asked that the Council, as part of its quarterly budget monitoring, include appropriate balance sheet monitoring so that all stakeholders are apprised of the Council's overall financial position.

74. INTERNAL AUDIT PROGRESS REPORT

The Head of Worcestershire Internal Audit Shared Service presented a report updating the Committee on progress with the work of the service for the Council.

Plan delivery to the end of February 2024 was 50 per cent, with 5 audits complete and 14 in progress. Delivery was currently behind profile, which was due to a number of vacancies in the team. However, the structure of the service had been reviewed and advertisements had been placed for two new senior auditor posts. Additional resource had been obtained for 3 months to endeavour to complete the 2023/24 plan and minimise any impact on the 2024/25 financial year.

During consideration of the report the following were the main points discussed:

- In response to a Member query, the Head of Worcestershire Internal Audit Shared Service advised that the review marked as awaiting final sign-off was in respect of ICT. It was also clarified that a critical review referred to a deep dive into an area of work where changes were being made and advice given. This would usually be followed up with a formal report a year after implementation.
- A Member pointed out that the revised assurance level RAG indicators for 2023-24 had not been applied consistently in

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all reports that the Committee had been receiving. The Head of Internal Audit Shared Service apologised for any inconvenience in the presentation and responded that he intended to revise the internal audit reports from the new municipal year to ensure that the reports were consistent and clearly laid out. Members asked that they be consulted before changes to the format of the Internal Audit Reports were made.

- A question was asked with respect of the Corporate Data Quality and Usage audit area as listed in the report. It was explained that this was a project looking at quality of data produced across the shared service (by both Redditch and Bromsgrove Councils) and to streamline the input of data. It was noted that this was an area of particular importance as Government funds were now being allocated to Councils based on data that they submit rather than through bidding.

RESOLVED that

The Internal Audit Progress report be noted.

75. RISK MANAGEMENT REPORT

The Deputy Chief Executive and Section 151 Officer introduced the report which set out Council activity to identify, monitor and mitigate risk. It was noted that this was the sixth cycle of reviewing corporate and departmental risks since the original baselining of risks in April 2022. It was noted that risk was managed centrally through the 4Risk System and the organisational risk level had moved to a moderate assurance level from May 2023.

The Deputy Chief Executive and Section 151 Officer drew the Committee's attention to a new corporate risk which had been included on the Register relating to the wide-ranging requirements of the Environment Act and the implications of the act on the waste collection fleet. It was being currently assessed what would be the implications in case of specific regulations being issued in the area of waste. It was noted that there were now 13 Corporate Risks and Members were advised that mitigating factors were in place for each of the Corporate Risks as detailed in the report.

With regard to the delivery of Towns Fund projects, it was highlighted that significant risk remained in the delivery of the projects before the funding deadline with the risk that some projects might not deliver within the present Government funding timescales.

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It was noted that this issue was raised with the Government by multiple Councils at the Towns Fund Conference and again during the “Deep Dive” review of Redditch Towns Fund processes in the summer which also validated Redditch Governance processes with respect to the Towns Fund.

The Committee was informed that the Cost of Living was continuing risk as the effects of this were shown in areas such as fires in properties due to the use of second-hand electrical goods.

It was reported that there were now 47 departmental risks compared to 51 in the previous reporting period. 1 red departmental risk remained – Revenues – Performance Indicator date is not robust - which was linked to the customer interface and the need for Council datasets from various departments to be linked to each other.

A question was raised with respect of the report and the ‘black box’ symbol appearing in the tables setting out departmental risks. It was explained that this symbol denoted where the risk had been removed from the risk register.

During the discussion, it was requested by Members that Officers endeavour to provide clarification as to why departmental risk HOU 2 – “fail to effectively manage housing repairs and maintenance” (related to COR14) should be rated as a green risk. Members asked that Officers consider reassessing this risk and highlighted that concerns were raised in this area, including when social housing repairs in Redditch were considered as an agenda item at the meeting of Overview and Scrutiny Committee which took place on 14th March 2024.

RESOLVED that

the present list of Corporate and Departmental Risks be noted.

76. FINANCIAL COMPLIANCE REPORT INCLUDING UPDATE ON COUNCIL'S STATEMENTS OF ACCOUNTS

The Deputy Chief Executive and Section 151 Officer introduced the report and updated the Committee on actions taken since the previous meeting, including on the returns provided to the Government.

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Although the 2022-23 revenue outturn report had been completed using estimates, the returns for 2020-21 and 2021-22 could not be completed in this way and had to wait until the accounts had been finalised. Officers were in contact with HMRC regarding this.

It was highlighted that as reported at the previous meeting, the Government was looking to implement statutory deadlines for completion of outstanding statements of accounts and impose a 'backstop' deadline for all accounts up to 2022/23 to be completed by the 30th September 2024. There were two consultations released in relation to this by the Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office (NAO), which asked the stakeholders for their views on the audit system and the 'backstop' proposal. The Council had responded to both consultations and the responses were provided at Appendix A. It was noted that the responses were confidential at this point as the results of both consultations are yet to be released.

RESOLVED that

progress on the 2020-21 Audit process be noted.

77. RISK CHAMPION UPDATE

The Council's Risk Champion, Councillor Marshall, explained that there was a potential risk with respect to elections and new Members who had little or no experience being selected to sit on the Audit, Governance and Standards Committee. Councillor Marshall asked that a training programme for new elected members be embedded within the induction process as this would help mitigate potential risks in this area.

Members took the opportunity to thank Councillor Marshall for the reports and service as a Risk Champion in 2023-24.

RESOLVED that

the Risk Champion Update be noted.

78. COMMITTEE WORK PROGRAMME

It was noted that the first meeting of the Committee in the new municipal year was planned for 28th May 2024 and items currently scheduled for that meeting were:

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- Standards Regime – Monitoring Officer’s Report
- Grant Thornton - External Audit Update Report
- Financial Compliance Report
- Internal Audit Plan 2024-25
- Internal Audit Annual Report and Audit Opinion 2023-24
- Risk Management Report Quarter 4
- Election of Risk Champion.

Members asked for it to be recorded that this was the last Committee meeting to take place in the Town Hall Council Chamber. It was noted that refurbishment of the Town Hall was due to begin soon, which would lead to relocation of the Chamber to another part of the building.

RESOLVED that

the Committee’s Work Programme be noted.

The Meeting commenced at 7.00 pm
and closed at 8.29 pm