



Audit, Governance & Standards Committee

Thursday, 10th November,
2022

MINUTES

Present:

Councillor Juma Begum (Chair), Councillor Andrew Fry (Vice-Chair) and Councillors Imran Altaf, Tom Baker-Price, Michael Chalk, Luke Court, Sharon Harvey and Timothy Pearman

Also Present:

Councillor Karen Ashley (Portfolio Holder for Finance and Enabling), Jackson Murray (Engagement Lead for Grant Thornton), Neil Preece (Engagement Manager for Grant Thornton).

Officers:

Kevin Dicks, Peter Carpenter, Michelle Howell and Andy Bromage (on Microsoft Teams).

Democratic Services Officers:

Jess Bayley-Hill and Mat Sliwinski

28. APOLOGIES AND NAMED SUBSTITUTES

An apology for absence was received from Councillor Salman Akbar.

29. DECLARATIONS OF INTEREST

There were no declarations of interest.

30. PUBLIC SPEAKING

There were no public speakers registered on this occasion.

Chair

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31. SECTION 24 REPORT

The Section 24 Report was presented by the Engagement Lead, Grant Thornton. It was explained that, as auditors, Grant Thornton had powers under the Local Audit and Accountability Act 2014 to make, if necessary, statutory recommendations under Section 24 of the Act. The Committee was informed that following discussions with colleagues it was the judgment of Grant Thornton that the issues outlined within the report warranted the issuing of statutory recommendations under the Act.

The background to the statutory recommendation was outlined and it was reported that a new financial ledger system had been implemented in February 2021. However, there had been significant challenges in respect of the cash receipting module in the new system.

Members were reassured that Officers had been working with the suppliers of the Enterprise Resources Planning (ERP) system, Tech1, and that the cash receipting module issues had been resolved and this module was now live. However, despite the progress that had been made in the cash receipting module the delays experienced had impacted on the delivery of the publication of the 2020/21 Accounts, which were due by the end of July 2022. The Council had also fallen behind in the finalisation of the 2021/22 in year monitoring and other Government returns, such as Revenue Outturn and Capital Outturn.

It was highlighted that the Council had recognised these issues and in Q1 of 2022/23, planning had begun for the 2020/21 financial audit, which was when the issues highlighted above had come to the attention of the auditors. The Engagement Lead reported that Grant Thornton took a consistent approach to issuing Section 24 notices across public bodies it audited with those local bodies which had not submitted their 2020/21 Accounts being issued with Section 24 notice. The Engagement Lead added that although resolution to the issues with cash receipting had now been reported, and assurances provided about reconciliation of information from the old to the new ledger system, Grant Thornton could not give their opinion until the audit of the 2020/21 Accounts had been investigated and concluded.

The Interim Director of Finance addressed the Committee and explained that issues with cash receipting module had been reported to Members on a number of previous occasions and that

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these issues had now been resolved. The Committee were informed that there had been a severe loss of Council staff, resulting in only four members of the finance team remaining at one point in financial year 2020/21. Following two recruitment drives during 2021/22, the Finance team were now almost up to full capacity again. It was also noted that the closure of 2021/22 Accounts for Rubicon, completed earlier in the financial year, provided useful learning points for the work on the Redditch Council financial statements which should mean that once work on the 2020/21 Accounts was finished, the 2021/22 Accounts should be finalised a lot more quickly.

Following the presentation, a number of questions were asked by Members which included the following:

- When was the Section 24 notice issued? – It was confirmed that the Section 24 notice had been issued on 31st October 2022 and the timeline for consideration of the statutory recommendation by the Council was within one month of issue. The recommendation was due to be considered by Full Council on 14th November 2022.
- Would compensation be paid by the supplier of the Enterprise Resources Planning (ERP) system, Tech1, in relation to the faults with the cash receipting module? – Officers explained that overall the new ERP system worked to a very high standard and was more advanced than other systems on the market, apart from the cash receipting module which was jointly designed by the Council and the supplier of the system, Tech1. Furthermore, the ERP system and its modules were originally implemented as one entity for all three organisations (Redditch Council, Bromsgrove Council, Rubicon) which was the decision taken by Council Officers and which had also contributed to the magnitude of reconciliation work required. It was also noted that cash receipting represented the most difficult part of the system where least expertise was available. Due to these factors, the Council would not claim for any compensation from the supplier of the ERP system.
- How much did the ERP system cost and what had been the total cost to date? – Officers explained that they did not have the information at the meeting and undertook to provide this information to Members.
- When could the Council expect to no longer be under Section 24? – It was explained that no official statement would be issued by auditors confirming that Section 24 no

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longer applied to the Council. Rather it was for the auditors to be satisfied that Section 24 was no longer applicable to the Council based on evidence of progress made in addressing the statutory recommendations, for example with evidence that clear bank reconciliation was in place. It was suggested that Officers could provide a commentary on the Council's progress in its Section 24 position at a future Committee meeting.

- What were the issues with cash receipting module? – Jointly with Tech 1, the Council was the first implementer of the cash receipting module, and no other local authority had implemented the Tech 1 solution. It was explained that the issue with cash receipting centred around the fact that as the system recognised all three organisations under one entity, a significant amount of transactions was coded incorrectly or assigned to the wrong entity. In those cases, Officers had to manually unpick the transactions and reconcile payments to the cash receipt journal in order for the transaction to be recorded under the correct entity. It was highlighted these issues were now being rectified.
- What were the financial implications of the Council being issued with Section 24 notice? – It was explained that there would be an impact in terms of a higher audit fee if auditors identified issues with incorrect reconciliation when auditing 2020/21 Accounts, which required additional work to correctly identify transactions. There would be no other cost associated with the Section 24 notice.
- When could Members expect the 2020/21 Accounts to be audited? – It was explained that the audit work on the Accounts was not expected to begin until January 2023 at the earliest. Once the Accounts had been audited the Audit opinion would be published on the Council's website and subsequently would be considered by the Committee, which could decide on whether to recommend to the Council to accept these accounts or not.

Members questioned if there had been any 'Exit Interviews' carried out with staff who had left and whether during these interviews the ERP system was raised as an issue. Officers confirmed that they did not have the exact information in respect of the number of Exit Interviews carried out for those members of the Finance Team who had left during 2020 until the end of 2021. However, it was confirmed that all Council staff were offered an exit interview, although not all chose to take up the offer. In addition to this, it was noted that potentially the new skills that had been acquired by those

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members of staff who were trained on the new system were desirable to other employers in the work marketplace and this could have potentially been a reason why more staff than was usual left in a very short space of time.

Members queried whether it could have been possible to foresee the issues with the cash receipting module and whether risk assessment had been undertaken prior to implementation of the system. In response, it was highlighted that the previous financial system was outdated, and the cash receipting was being supported by an older version of Civica. Initially it had been agreed that an updated version of the Civica system would be used for cash receipting. However, after the tender process the project team highlighted that Tech1 could offer assurances that a cash receipting solution could be provided as part of the new system. It was added that a project board had been in place for the implementation of the new system, and notes of the project board indicated that the system offered by Tech1 passed all the necessary tests.

It was reiterated that the loss of so many staff who originally implemented the system could not be expected or mitigated against and this led to a loss of expertise and the need to train an entirely new team which did not initially had a sufficient level of proficiency in the new ERP system.

Officers also highlighted that staff turnover was very high in the 2020/21 financial year and necessitated large amount of spending on agency staff which was not sustainable. However, provisions were now being made through implementing a new recruitment process and preparation of a draft workforce strategy which would be considered by the Executive Committee in December 2022 and would provide an action plan for the Council in terms of staff retention. It was highlighted that staff retention remained an issue across the local government sector.

The Portfolio Holder for Finance and Enabling was invited to comment and in doing so stated that she had been regularly updated by Officers on the problem with cash receipting ever since assuming the position of a portfolio holder in May 2022 and thanked the Interim Section 151 Officer and his team for recognising the issues and dealing with them. She expressed confidence that the team would be able to finalise the draft Statement of Accounts 2020/21 before the extra meeting of the Committee in December.

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The Chair concluded the discussion expressing confidence that based on the information heard by the Committee most issues highlighted by auditors in Section 24 were now under control.

On being put to the vote it was

RECOMMENDED that:

the Section 24 Statutory Recommendation is accepted, and that Council review the recommendation, endorse the actions included in the management responses which form the rectification process required as per legislation.

32. INTERIM AUDITOR'S ANNUAL REPORT 2020-21

The Engagement Lead for Grant Thornton presented the Interim Auditor's Annual Report 2020-21 on behalf of Grant Thornton and in doing so highlighted the following for Members' attention.

- This report was interim and would not be issued in final until an audit opinion could be issued on the 2020/21 financial statements.
- It was the first time that Committee Members had considered this report in this format. The National Audit Office, who set the code of practice that auditors followed, had updated the format of these types of reports in 2021, specifically highlighting Value for Money arrangements. This new code removed the necessity of provision of an audit opinion and required a commentary on three key areas: financial sustainability, governance, and improving economy, efficiency and effectiveness. This resulted in a more lengthy report than had been considered by the Committee in previous years.
- The report covered arrangements that were in place in the period up to 31st March 2021. Members were reminded that this was a backward look at the three key areas, as highlighted above, and that some of the recommendations contained within the report had been discussed earlier in the meeting and actions had already been taken against these recommendations.
- There were 6 key recommendations, which highlighted the areas where significant weakness in arrangements had been identified, and 13 improvement recommendations contained within the report. The 6 key recommendations were in respect of the following:

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1. The Medium Term Financial Plan – this recommendation outlined that the Council continued to be reliant on the use of general fund reserves and needed to take action through saving and income generation schemes to ensure financial sustainability in the longer term. This was pertinent given the uncertainty around level of central government support.
2. Provision of key reports and documents to Members – This recommendation noted that neither the Capital Strategy nor the Treasury Management Strategy were reported to the Executive Committee or the Council in 2020/21 financial year, which was a requirement under the various CIPFA Codes of Practice. It was highlighted by auditors, however, that these key documents had been presented to Members for the 2022/23 financial year.
3. Improved management of key projects – this recommendation was discussed as part of the previous item in respect of the implementation of the ERP system.
4. Effective governance arrangements in respect of performance monitoring – This recommendation dealt with the reinstatement of Performance Monitoring. Members were informed that there had been no formal performance reporting to Members throughout the 2020/2021 financial year. It was noted that Members had been able to access the Performance Dashboard but that the information included was not publicly available. The auditors highlighted that finance and performance monitoring had been reinstated from September 2022 with the Q1 2022/23 Finance and Performance Monitoring Report presented to Members in September and the Q2 2022/23 Finance and Performance Monitoring Report due to be presented to the Executive Committee in November.
5. Risk Management and Risk Reporting – This recommendation outlined the need for formal risk management reporting through the Audit, Governance and Standards Committee. It was noted that this had already commenced, and the definition of a Corporate Risk had been agreed by Members. Risk management reporting was now considered at meetings of the Committee.
6. Timely and relevant financial monitoring reporting – This recommendation was concerned with the lack of formal financial monitoring. It was stated that there had been no formal financial reporting to Members throughout the 2020/2021 financial year. However, it was confirmed that there had been financial monitoring up to the

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implementation of the new ledger. As noted earlier in the meeting, the impact due to a lack of staff within the finance team had inevitably impacted this area in the 2021/22 financial year and with staffing levels now increased financial reporting had been reinstated and was being considered on a quarterly basis.

Following presentation of the report the Interim Director of Finance reported that it was crucial to deliver the Medium Term Financial Plan 2023/2024 in two tranches. In terms of assurance, Members were informed there had been a number of internal assurance boards, one looking across the back office processes and another which included the Fourth Tier managers who would be expected to review projects to ensure the correct people were included at that correct time. It was added that there was a role for Members in reviewing changes to projects and considering lessons learned. It was noted that a lessons learned report on the ERP system project would be presented to the Audit, Governance and Standards Committee in due course.

Members questioned whether the recommendations of the Local Government Association (LGA) Corporate Peer Challenge were being implemented by the Council and whether another peer review had been envisaged. Officers reiterated that the first LGA Corporate Peer Challenge was undertaken in Redditch in January 2018 with a follow-up visit in 2020 and responded that while the need to focus on responding to the Covid-19 pandemic had redirected focus from some of these peer challenge recommendations, the Council was focused on addressing the main recommendations in terms of the need for the Council to be clear about its priorities and ensuring that the Council's resources were not overextended through taking on too many projects and initiatives. Officers stated that there was willingness to undertake another form of peer challenge once immediate priorities, such as producing the Accounts for 2020/21 and 2021/22, had been fully resolved.

Views were also provided on whether the Council would adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Governance Model and Officers noted that whilst it provided a sound overall framework for governance, the specific improvement recommendations contained within that model were not fully compatible with the corporate priorities of the Council. For example, it was underlined that a suite of performance measures needed to reflect what was relevant for Redditch.

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The Interim Director of Finance confirmed that the projected use of reserves in the 2021/22 – 2024/25 Medium Term Financial Plan (MTFP) would see the general fund reserves decrease from £2 million for 2022/23 to £0.2 million by closing of 2024/25. In addition, the level of inflation seen, particularly utility inflation, which was now assumed at 200 per cent, presented a great challenge to delivering a balanced MTFP beyond 2024/25. It was reiterated that to deliver a balanced budget for the current MTFP ending 2025/26, significant savings would need to be identified in Tranche 2 of the budget process. This could necessitate making significant savings to service areas, and it was hoped the Chancellor Autumn Statement would provide some clarification on the level of support to the local government sector. It was added that in contrast to the general fund reserves the level of earmarked reserves remained stable for the last three years at around £7 million. The Council needed to consider whether it remained appropriate to set the level of earmarked reserves at this level.

Some Members commented that it was paramount the Council finances returned to a balanced position and commented that this would be difficult unless either some services were cut or innovative ideas to generate revenue were found. Other Members commented that the Council still needed to prioritise funds in such a way that projects that the public values were delivered whilst services for vulnerable members of the community were maintained.

On being put to the vote it was

RECOMMENDED that

- 1. The 6 Key Recommendations and 13 Improvement Recommendations within this report be agreed by the Council.**
- 2. Council agree with the Management Actions contained within this report will rectify these issues.**
- 3. Any other actions deemed necessary to rectify these issues be highlighted by the Council.**

33. COMMITTEE WORK PROGRAMME

As discussed earlier in the meeting, the Interim Director of Finance informed Members there would be an additional meeting of the

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Committee arranged in mid-December 2022 in order to sign off the draft Statement of Accounts for 2020/21.

It was suggested by Councillor Baker-Price that the Audit, Governance and Standards Committee should meet bi-monthly until April 2023, as Officers were aiming to have the Audited Statement of Accounts for 2021/22 by the end of this financial year (2022/23).

RESOLVED that

- 1) An extra meeting be scheduled for the second week of December 2022, and;**
- 2) the Audit, Standards and Governance Committee meetings take place bi-monthly for the remainder of the municipal year 2022/23.**

The Meeting commenced at 7.01 pm
and closed at 8.26 pm