

Audit, Governance & Standards Committee

Thursday, 23rd November,
2023

MINUTES

Present:

Councillor Ian Woodall (Chair), Councillor Jane Spilsbury (Vice-Chair) and Councillors Salman Akbar, Juma Begum, Andrew Fry and Chris Holz

Also Present:

Councillor Luke Court – Portfolio Holder for Finance and Enabling
Jackson Murray - Key Audit Partner, Grant Thornton
Kirsty Lees – Audit Manager, Grant Thornton

Officers:

Nicola Cummings, Peter Carpenter, Adrian Howe (on Microsoft Teams), Sue Hanley (on Microsoft Teams) and Michelle Howell

Democratic Services Officers:

Mat Sliwinski

47. JOINT INTERIM AUDITOR'S ANNUAL REPORT 2021-22 AND 2022-23

The Key Audit Partner for Grant Thornton presented the Joint Interim Auditor's Annual Report for years 2021-22 and 2022-23 and in doing so noted that the Report covered arrangements for the period from 1st April 2021 to 31st March 2023. It was noted that the final auditor's annual report for 2021-22 and 2022-23 could not be issued until the final sets of Accounts for these years had been submitted and audited.

It was noted that the Joint Interim Auditor's Annual Report followed from the Section 24 Report considered by the Audit, Governance and Standards Committee on 10th November 2022. Last year's Section 24 Report set out the Statutory Recommendation issued by the External Auditor under Section 24 of the Local Audit and Accountability Act 2014. It was highlighted that the Report before Members updated on the progress against Statutory, Key and

Chair

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

Improvement Recommendations that were issued on 31st October 2022 and the Report also reaffirmed that the Statutory Recommendation remains outstanding.

The Key Audit Partner explained that the Statutory Recommendation was issued on 31st October 2022 as a result of the non-delivery of the 2020-21 financial statements at that time. As of 23rd November 2023, the Council's remained unable to publish the draft 2020-21 Accounts, and this was the reason for the External Auditor's updated Section 24 Statutory Recommendation. The Key Audit Partner explained that some improvement had been made in addressing the Statutory Recommendation, in particular around the functioning of the Enterprise Resources Planning (ERP) system, TechnologyOne, and the successful remediation of the cash receipting module within that system. The Council had also provided data take on balances for periods 1-11 of the 2020-21 financial year.

The Key Audit Partner clarified that the External Auditor had now received period 0 data take on balances on 13th November 2023. However, the priority remained for the External Auditor to gain assurance around period 0 balances and the data transfer that took place between the Council's old ledger system, eFinancials, and the new ledger system, TechnologyOne.

It was highlighted that, as reported in the previous meeting, the Department for Levelling Up, Housing and Communities (DLUHC) had announced a range of proposals to address the backlog of audits across English local authorities. These proposals included enforcing statutory deadlines for local authorities to complete outstanding audits that, if not met, would lead to an automatic issuing of qualifications and disclaimers of opinion for those sets of accounts and the auditors being asked to move on to the statements of accounts for subsequent years. The Key Audit Partner noted that whilst these proposals still required legislation to be passed in order to come into effect, it was likely that backstop dates would lead to at least one of Redditch Borough Council's outstanding sets of financial statements (i.e. for 2020-21, 2021-22 and 2022-23 financial years) being qualified.

The Key Audit Partner addressed the progress made by the Council against the 6 key recommendations that were issued by the External Auditor on 31st October 2022. The first of the key recommendations was in respect of the Council's Medium Term Financial Plan (MTFP) and ensuring that the financial challenge and

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

the saving schemes within that Plan were backed up by valid assumptions. It was reported that the External Auditor had seen progress made in respect of medium term planning. The Council's MTFP was now predicated on much stronger assumptions than in the previous year's reporting. However, it was repeated that because financial statements going back to 2020-21 had not yet been audited, the opening position on the MTFP could be incorrect.

The second key recommendation was in respect of appropriate public reporting of statutory reports such as the Treasury Management Strategy and the Capital Strategy. The Key Audit Partner reported that the Council addressed this recommendation from the 2022-23 financial year and as such this key recommendation was resolved and no further action required.

The third key recommendation related to the need for the Council to improve its management of key projects. The Key Audit Partner reported that since the Section 24 Report of October/November 2022, the Council had made progress in this area, including through the introduction of the Project Management Office, and therefore this key recommendation was resolved and no further action required.

The fourth key recommendation was with respect to management, monitoring and reporting of risk. The Key Audit Partner noted that the Council had made an improvement in this area and the External Auditor was of the opinion that the key recommendation had been resolved and could now be downgraded to an improvement recommendation.

The fifth key recommendation was with respect to effective governance arrangements in respect of performance monitoring and reinstating public reporting on performance. The Key Audit Partner commented that this recommendation was now resolved due to the return to in-year performance monitoring. However, an improvement recommendation (lower level of auditor recommendation) had been raised as the Council's performance reports remained in need of significant improvement.

The sixth recommendation related to the need for the Council to ensure timely and relevant financial monitoring reporting was undertaken. The Key Audit Partner noted that the Council returned to in-year budget monitoring in 2022-23, which meant the key recommendation had been resolved, and was now downgraded to an improvement recommendation.

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

The Key Audit Partner noted that where a significant weakness had been identified in arrangements, the External Auditor was required to raise either a key or statutory recommendation. It was noted that although key recommendations 2 to 6 had now been removed, a new key recommendation had been added with respect to the Council's organisational capacity and capability. It was highlighted that workforce capacity was a challenge across the public sector. The Council faced significant workforce challenges, such as continued strong reliance on temporary/interim staff across the organisation. It was noted as a concern that two out of three statutory officers were interim. The other areas highlighted included the need to embed the objectives of the Council's Workforce Strategy within the organisation and the need to ensure that succession planning, creative recruitment, and workforce development took place.

Following the Key Audit Partner's presentation of the Report, the Interim Director of Finance addressed the Committee and in doing so expressed disappointment that the Council had not yet reached a position where it had agreed period 0 data take on balances with the External Auditor and was able to issue the draft set of 2020-21 Accounts to auditors.

The Interim Director of Finance noted that the Council made progress in key areas, including upskilling of the Council's workforce on the use of the Council's new ledger system, TechnologyOne. The Council had significantly improved its processes around expenditure controls, including the 'no purchase order, no pay' procurement process. Additionally, work was undertaken on linking the Council's finance teams and human resources (HR) datasets, which would improve work processes significantly. Finally, the Council had improved its public reporting and audit committee processes, with Members sighted on financial information, including regular and full updates on the Council's closure of accounts process.

The Interim Director of Finance addressed the issue in respect of the statutory deadlines (backstop dates) proposed by the DLUHC to clear the audit backlog in the local government sector and noted that the scale of the backlog of audit opinions was very significant across the sector. The latest data showed that for 2021-22, 170 local authorities had produced draft accounts that had not been audited and only 108 sets of accounts had been audited for that year. For 2022-23, only 7 audits had been completed and audited.

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

31 local authorities, including Redditch and Bromsgrove Council, had not yet produced draft 2021-22 financial statements.

The Interim Director of Finance reiterated that the Council had made efforts to produce the draft 2020-21 Accounts. The business objects licence for the eFinancials ledger system had been reinstated in order to run a period 0 report and period 0 data take on balances were now available, which would enable work on verification of period 0 balances to be started. However, the Interim Director of Finance stated that the Council was reticent to provide the draft 2020-21 Accounts for final external audit before data take-on balances had been agreed between the Council and the External Auditors.

The Portfolio Holder for Finance and Enabling addressed the Committee and noted that progress against the Statutory Recommendation had been made. The Portfolio Holder stated that data take-on balances for period 0 were provided to external auditors on 13th November 2023. He also noted that the topic of backstop dates for local audits was not covered in the King's Speech, and therefore the introduction of backstop dates was not thought to come into place in the near future. He also noted regarding the new key recommendation that the Council was implementing its Workforce Strategy and £150,000 was made available to ensure that appropriate Human Resources were in place to implement the points in this plan.

Following the presentations, Members discussed a number of points relating to the Joint Auditor's Annual Report, including the following:

- Reputational damage to the Council as a result of Section 24 Recommendation – Officers reported that this remained an issue for the Council as Section 24 Notice remained in place.
- Clarification on the External Auditor recommendations – The Committee was advised that a Public Interest Report was the highest level of statutory power available to the external auditors. The Council had not been issued a Public Interest Report. The next level of statutory power was issuing Section 24 Statutory Recommendation of which one was still in place from the 2020-21 Interim Auditor's Annual Report (submitted on 31st October 2022) relating to closure of 2020-21 Accounts. Of the 6 Key Recommendations in the 2020/21 report, only one serious weakness remains in the Joint

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

Interim Auditor's Annual Report for 2021-22 and 2022-23 in relation to opening balances linked to the budget which would be resolved with the delivery of the Accounts. The remainder of significant weaknesses had either been resolved or linked to Improvement Recommendations (of which there are 10 in the report) – which were the lowest level of recommendation to be issued by external auditors.

- Impact of unaudited accounts on the Council's earmarked reserves – It was noted that the real budget and reserves position could not be confirmed until the 2020-21 Accounts had been audited. However, it was noted that earmarked reserves were reviewed last year and there was not much movement in them over the past three years, and that the level of those reserves had remained similar to the pre 2020-21 level.
- Timelines for providing draft 2020-21 Accounts to External Auditor – It was explained that it was imperative from the Council's perspective that agreement on the opening balances (period 0 data take on balances) was reached between the Council and the Auditors before the draft accounts were submitted as otherwise there was a high risk of receiving qualified accounts. When the ledger system transfer took place the data transfer was not fully documented, which meant that limited accessible record of period 0 balances were available. The contract with Advanced, who were the provider of old ledger system eFinancial, had now been extended for the five years required by the Auditors and they had now provided period 0 data directly to the External Auditor. It was noted that Grant Thornton (External Auditor) data team had looked at this data and came back with questions on 92 unmapped cost centres earlier today. The Council would provide a response to these queries and it was hoped that agreement on data take on balances could be reached in December, which would enable draft accounts for 2020-21 to be submitted before Christmas. However, it was highlighted that these dates were not definitive.
- Information was requested on the number of local authorities that had outstanding, unaudited accounts for previous financial years due to inadequate IT or financial system arrangements. Officers undertook to obtain this information and provide them to Members.

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

- It was noted that for some authorities the backlog in the auditing of accounts was due to the way councils accounted for money. This was related to a wider set of accounting practices within the local government sector.
- Redditch Borough Council's Press Release on the Council's Financial Statements, 20th November 2023 – A concern was raised that the press release "Council In Strong Position Say Auditors" conveyed an overtly positive message and might be misleading to the public in the context of the Council still having an outstanding Section 24 Statutory Recommendation relating to the non-delivery of 2020-21 Accounts for external audit. In response Officers reported that the Council was transparent in its reporting on issues and progress relating to the delivery of the requirements of the Statutory Recommendation and associated financial issues through the Financial Compliance Reports that were reviewed at every meeting of Audit, Governance and Standards Committee, and through the Financial Recovery Reports that were reviewed by the Executive Committee. It was highlighted that reports from committee meetings were publicly accessible. Furthermore, the budget process was fully transparent, with the challenges faced with the closure of accounts documented in budget papers.
- The Portfolio Holder for Finance and Enabling addressed the Committee and said there was extensive public communication of the issues relating to Section 24 and the Council's outstanding accounts. The Portfolio Holder commented that in the Press Release of 20th November 2023 the auditor's decision not to remove the current Section 24 Notice was acknowledged and it stated that this was due to the remaining outstanding accounts that were yet to be signed off by auditors.
- It was highlighted by some Members that the Council's medium term financial forecasts were currently based on unaudited financial data and as such these forecasts were not based on firm foundations in relation to opening balances.
- Review of the Council's Capital Projects - The Chair of the Committee highlighted that the Council needed to be prepared for the worst-case scenario, that is that all of the

Audit, Governance & Standards Committee

Thursday, 23rd November, 2023

Council's outstanding sets of accounts would be given qualified opinions. In this context, he asked that the Council should consider undertaking a full review of all capital projects going forward, and to reprofile any projects as deemed unnecessary. The Interim Director of Finance responded that this Capital Review would take place in Tranche 2 of the 24/5 MTFP process. The Chair noted that the general uncertainty caused by the wage and inflationary pressures further exacerbated the uncertainty already caused by the Council's unaudited accounts. Members concurred that it was important to raise this as a comment.

Following the discussion, the recommendation was voted on and it was:

RECOMMENDED to Council:

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.

The Meeting commenced at 7.00 pm
and closed at 8.28 pm