

**Minutes of the Audit and Standards Committee
Wednesday 24th April, 2024 at 6.00pm
In Committee Room 3, The Council House, Dudley**

Present:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors S Ali, T Creed, J Cowell, M Evans, J Foster, S Henley and W Little.

Dudley MBC Officers:

I Newman (Director of Finance and Legal Services), G Harrison (Head of Audit and Risk Management Services), R Cooper (Head of Financial Services), M Granger (Corporate Fraud Manager), L Jones-Moore (Finance Manager), A Taylor (Senior Principal Auditor) and K Taylor (Senior Democratic Services Officer).

Dudley MBC Officers in Attendance via Microsoft Teams:

M Farooq (Monitoring Officer and Lead for Law and Governance), M Landy (Principal Auditor) and E Newman (Principal Auditor).

Also in Attendance:

A Smith (Key Audit Partner) and W Guest (Senior Manager) – External Auditors (Grant Thornton)

One Member of the Press.

57 Apology for Absence

There were no apologies submitted for this meeting of the Committee.

58 Appointment of Substitute Member

There were no substitute Members appointed for this meeting of the Committee.

59 **Declarations of Interest**

No Member made a declaration of interest in accordance with the Member's Code of Conduct.

60 **Minutes**

In referring to Minute No. 51 – Hybrid Working and Future Plans Presentation, Councillor J Foster requested that paragraph d (2) second sentence be amended to read “agile working could work if arrangements to cover workplaces were properly structured to give appropriate accessibility and visibility”.

That, subject to the amendment above, the minutes of the meeting held on 19th February, 2024 be approved as a correct record and signed.

61 **External Audit Grant Thornton Annual Audit Plan 2023-24**

The Committee considered a report of the Director of Finance and Legal Services on the External Auditor's Annual Audit Plan 2023-24.

In presenting a summary of the report submitted, W Guest (Grant Thornton) referred to the statutory recommendations that had been issued to the Local Authority on 30th January, 2024 reflecting concerns of the financial outlook for the Council. Risks that required special audit consideration and procedures to address the likelihood of a material financial statement error had been identified on risk of fraud in revenue recognition and expenditure due to the nature of the revenue streams at the Council; completeness of operating expenditure and payables; management override of controls; valuation of land and buildings (including council dwellings) and valuation of the net pension liability.

It was noted that work was progressing on the three recommendations reported in the 2022/23 audit of the Council's financial statements and a further update would be presented to the Committee later in the year.

It had also been determined that the planning materiality to the Council would amount to £11million, and that the findings of the Value for Money risk assessment would be presented to the Committee once completed.

Members were advised of the proposed timeline of the audit which was anticipated to commence in July, 2024, with the aim of completion in October, 2024, including the audit fees which had increased to £359,547 for 2023/24.

Reference was made to the Escalation policy proposed by the Department for Levelling Up, Housing and Communities to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future and outlined the steps that would be taken to address any delays in draft accounts or responding to queries and information requests.

Arising from the presentation, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a question raised by Councillor S Ali in relation to the increase of audit fees from £195,506 in 2022/23 to £377,097, A Smith confirmed that there had been a significant increase for 2023/24 as a result of this being the first year of the new PSAA contracts which had been re-tendered in 2023 to Grant Thornton, following a competitive tendering exercise by public sector appointments. Although recognising the significant increase, it was reported that this was not unique to Dudley and that similar increases had been made across local government.

In responding, Councillor S Ali considered this to be a significant increase and raised concerns of the Council being able to financially support future audit assessments taking into account the current financial challenges faced by the Council.

The Chair commented that the audit fees had not increased for 10 years and following the disbanding of the Audit Commission, a number of larger auditors had declined to continue undertaking Local Authority work due to the low fees and subsequent cost inflations.

- b) In responding to a question raised by Councillor J Foster as to whether the set fee determined the amount of work undertaken, A Smith confirmed that there would be an increase to the work undertaken this financial year compared to previous years in view of the increasing Council's risk profile. It was noted that the auditors had made significant losses on most local government audits within the past five years as they were not being remunerated for the work undertaken in previous years.

- c) Councillor J Foster queried whether auditors considered best practice as there was little reference within the report submitted and whether this information was provided in a different forum within the Local Authority in order to assist in addressing issues that had been highlighted as high risk.

In responding, A Smith confirmed that the purpose of the Audit Plan report was to outline the strategy for the coming audit, however the Auditor's Annual Report contained the Value for Money commentary, and as part of that work, the Local Authority arrangements were assessed and benchmarked against established good practice within the sector.

- d) Councillor S Ali referred to the valuation of lands and buildings and governance issues in relation to the Council's decision-making processes which was raised in July, 2023, specifically to the governance surrounding the sale of land at the former Dudley Leisure Centre site in Wellington Road, Dudley. He raised a number of concerns with regard to the steps taken before disposal of the asset, which had been raised with Officers with a request for further information and assurance. Councillor S Ali confirmed that the information requested, including a copy of the evaluation report, could not be disclosed due to confidentiality, despite a number of news articles being published on the matter, and suggested that the withholding of information did not instil any confidence in the public. He therefore sought clarification of the auditor's role in ensuring that these processes were being undertaken correctly.

In responding, A Smith confirmed that this area could be reviewed as part of the Value for Money work and specifically in terms of the decision-making process that was undertaken before the sale was agreed.

- e) Councillor S Ali emphasised the importance of investigating this matter and referred to the governance issues associated with MIPIM and raised concerns of the announcements made by the Leader of the Council in relation to the Local Authority considering options before due diligence and money laundering checks had been completed. He suggested that the issues raised by External Auditors in July 2023 were still being ignored and therefore, he queried how the auditors would ensure that the statutory recommendations that had been placed were being actioned.

In responding, A Smith confirmed that recommendations raised would be followed up as part of the audit work for this year and undertook to investigate the matter raised by Councillor S Ali further.

Councillor S Ali confirmed that he had also requested that the Audit and Risk Management Services investigate the entire process undertaken, and further suggested that the public had lost confidence in the Council following the sale of the former Dudley Leisure Centre and land.

- f) Councillor J Foster sought clarification on whether the additional investigatory work would be incorporated into the normal reporting processes detailing the specifics of the case and whether Members were able to refer similar cases to Grant Thornton as appropriate.

In responding, A Smith confirmed that Members could contact him directly if they considered there was a matter that was relevant to the work undertaken by the External Auditors, and that any findings from investigatory work would be reported through the Auditor's Annual Report.

- g) Councillor M Evans suggested that Members should refer matters through the Local Authority in the first instance to highlight any areas of concern.

Resolved

That the report on the External Auditor's Annual Audit Plan 2023-24 be noted.

62 **Accounting Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

The Committee considered a report of the Director of Finance and Legal Services explaining the accounting policies, critical accounting judgements and key sources of estimation uncertainty to be used in preparing the 2023/24 Statement of Accounts.

The Committee was provided with an overview of the processes for making significant accounting estimates for the Council's Statement of Accounts. It was noted that a change had been made reflecting further guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFRA) concerning the application of IFRIC 14, as a significant number of authorities moved from a net defined benefit liability to a net defined benefit asset position in 2022/23 in relation to the Pensions Liability.

Resolved

- (1) That the Accounting Policies that will be used to complete the 2023/24 Statement of Accounts be approved.
 - (2) That the Critical Accounting Judgements made and Key Sources of Estimation Uncertainty, which will be disclosed in the Statement of Accounts, be noted.
 - (3) That the processes for making significant accounting estimates for the Statement of Accounts be noted.
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63 **Risk Management Report**

The Committee considered a report of the Director of Finance and Legal Services on the risks reported to Strategic Executive Board (SEB) and the status allocated by the Risk Owner as at the 31st December, 2023 (end of Quarter 3). Appendix B to the report, outlined full details of risks reported to SEB, and in addition to risks tabled in Appendix B, the Committee were requested to identify any additional risks that it considered should be included on the SEB risk report and identify any particular risk for detailed scrutiny at the December, 2024 meeting of the Committee.

In presenting the report, the Head of Audit and Risk Management Services stated that there were eighteen risks rated very high at the gross level and four rated very high at net level which related to budget, regeneration benefits, programme management, and non-compliance with CQC inspection framework.

It was noted that R.607 “There is a risk of non-compliance with the CQC inspections assessment framework” had been added to the SEB Risk Report and that it had been agreed by SEB to merge R.580 (funding for the proposed METRO route) with R.408 (regeneration benefits).

Further details in relation to the directorate Net risks that were rated Very High was outlined in Appendix C of the report submitted. Risks that were currently rated Very High at the Net level and the ratings for the previous quarters was outlined in Appendix A of the report submitted, which identified that there were a number of risks where the rating had not changed in three or more quarters.

Councillor J Cowell commented that the number of risks that were rated very high, particularly at net level, was indicative of the current position of the Council and referred to the significant number of risks within the report with a target end date of 2099 and suggested that Directors and officers should be encouraged to consider a more realistic and meaningful date on all action points with that target date. In responding, the Head of Audit and Risk Management Services confirmed that as part of this year's work, they would ensure that appropriate dates were entered on mitigating actions.

With regard to the merging of R.580 and R.408, Councillor S Ali stated that he had previously raised concerns with regard to the Wednesbury-Brierley Hill Metro Extension, particularly regarding the updated Business Case which was required as part of the additional funding from Government, to enable the extension from Dudley to Brierley Hill which had not yet been approved. It was stated that a significant amount of money was required to support the project and that the Local Authority was requested to identify an additional £15million to close the gap, which was a significant risk to the Council given the current financial situation. He therefore, queried whether any other external funding could be identified to cover the budget deficit.

In responding, the Director of Finance and Legal Services confirmed that the funding gap still needed to be resolved and that it had not been built into the Medium-Term Financial Strategy.

At this juncture, the Director of Finance and Legal Services gave a detailed presentation on Risk R.392 relating to the Council being unable to meet its commitments to deliver services (including those funded from ringfenced funds) due to annual income being insufficient and reserves having been fully depleted, triggering a requirement to issue a Section 114 notice. It was reported that the current net risk score was rated as Very High at 25 which was the maximum score on the risk model.

The forecasted unallocated General Fund Reserve was outlined, excluding assumptions about functional review savings, exceptional (or more general) financial support or Council Tax freedoms. The figures presented the position implied by the reporting that was submitted to the Cabinet in March, 2024 where the unallocated general fund was expected to decline over years to come. Both optimistic and pessimistic view scenarios was presented however, it was noted that a decline was still expected in future years should aspirations and savings not be delivered.

The Chair considered the figures presented demonstrated a depressing trend and queried that should savings improve the position where the provision of frontline services could be afforded, where in the future would there be any opportunity to rebuild reserves.

The Director of Finance and Legal Services confirmed that the net spending for Dudley was 10% lower than that of the average Metropolitan council and 5% lower than the deprivation-adjusted trend line, therefore any savings that would be required would be difficult to achieve. It was noted that the Medium-Term Financial Strategy report submitted to the Council in March, 2024, highlighted the risk of needing to increase Council Tax by more than the Council Tax Referendum limit set for councils, however no decision or agreement had been made for the freedom.

It was noted that the current rate of Council Tax in Dudley was around 10% lower than that of the average Metropolitan council, which if set at the same level as the average of all Metropolitan Councils, would increase the annual spending power to Dudley by around £15-16million.

In concluding, the Director of Finance and Legal Services advised of the new mitigating actions identified including, restoring proper budgetary decision making in line with the annual timetable and consideration of the Council's financial position; introduction of spending controls with defined exceptions which was introduced in October, 2023 and enhanced in March, 2024. It was anticipated that the controls would remain in place until unringfenced reserves increased to 20% of spend. It was noted that the Improvement and Assurance Board and Improvement and Assurance Plan had been established with a strong focus on financial sustainability.

Arising from the presentation, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) Councillor S Ali commented that the graphs and information given presented a deeply worrying situation in the Council's financial position, and in considering the number of projects that had been deferred until 2027/28, it was unrealistic that these could be progressed any further. Reference was made to a question he had raised earlier in relation to the funding gaps for the Metro Extension, and further reiterated that it was apparent that the Council was not in the position to match fund the £15million deficit. Councillor S Ali also referred to comments he had made at a previous Council meeting imploring the administration that the public should be made fully aware of the Council's financial situation. Although acknowledging that there had been some slight improvements made, this was not sufficient for the Council to be financially sustainable and it was anticipated that there would be some difficult years ahead with difficult decisions to be made.
- b) Councillor M Evans referred to the challenges faced by a number of Local Authorities that were in the same position as Dudley in particular as a result of the increase in adult social care and children's services payments.

Resolved

- (1) That the information contained in the report and Appendix A to the report submitted detailing the SEB risks, be noted.
 - (2) That the information contained in the presentation on risk R.392 relating to the Council being unable to meet its commitments to deliver services (including those funded from ringfenced funds) due to annual income being insufficient and reserves having been fully depleted, triggering a requirement to issue a Section 114 notice, and comments made by Members as outlined above, be noted.
 - (4) That risk R.607 be identified as the specific risk for in-depth scrutiny at the December, 2024 meeting of the Committee for consideration.
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64 **Internal Audit Plan 2024/25**

The Committee considered a report of the Director of Finance and Legal Services of the proposed Internal Audit Plan for 2024/25, which was attached as Appendix A to the report submitted.

In presenting the report, the Head of Audit and Risk Management Services advised that the Plan was produced to enable him to deliver an internal audit opinion on the overall effectiveness of the Council's framework of governance, risk management and internal control.

The detailed process to produce the Audit Plan was then presented, as set out in paragraphs 7 to 10 of the report. It was noted that Audit and Risk Management Services ensured that the list of auditable areas was complete and priority was then determined taking account of the risk status, the last internal audit review and other key assurance received.

Members were advised that Heads of Service had received a questionnaire requesting them to identify any changes to their service area, projects that they were involved with, any emerging risks, any assurance received, and suggestions for inclusion in the 2024-25 audit plan.

It was noted that meetings had been held with the Chief Executive, Deputy Chief Executive, Directors, and a number of Heads of Service to discuss their risks and any emerging risks and proposals for inclusion in the audit plan. The proposed Audit Plan for 2024/25, which had been approved by the Strategic Executive Board (SEB) was attached as Appendix A to the report and included a brief description of each audit.

The Head of Audit and Risk Management Services advised that due to the current financial situation facing the Council, a decision was made to undertake more audits in relation to financial systems, and more time allocated for contingency to support the Fit for the Future Programme.

Reference was made to Appendix B to the report submitted which detailed the audit plan reserve list and it was noted that the list would be utilised if an audit that was currently in the plan had to be cancelled, or additional resources allocated to the team. It was noted that Directorates had been informed of the list.

In conclusion, the Head of Audit and Risk Management presented a breakdown of the Audit Plan by Directorates, Schools, and other work.

Arising from the presentation of the report, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a request by Councillor J Cowell to include Housing Contract Management and Community Engagement and Participation to the Plan, the Head of Audit and Risk Management Services referred to the extensive work already undertaken in relation to Housing Contract Management and findings identified which would be followed up during the year and undertook to circulate a copy of the report to the Committee for information.
- b) In responding to a question raised by Councillor S Ali, the Head of Audit and Risk Management Services confirmed that there was contingency built into the plan to respond and include any significant risk that emerged during the year that was not considered within the audit planning process.
- c) In responding to a question raised by Councillor J Foster on the process for reporting any issues that may require further investigation, the Head of Audit and Risk Management Services encouraged Members to contact him directly in the first instance and if dissatisfied with the work undertaken, then they could progress the matter further to the External Auditors.

Resolved

- (1) That the proposed Internal Audit Plan for 2024/2025, attached as Appendix A to the report, be approved.
- (2) That the Head of Audit and Risk Management Services be requested to circulate a copy of the findings identified following a review of Housing Contract Management.

65 **Audit and Standards Committee Annual Report 2023/24**

A report of the Director of Finance and Legal Services was submitted on the Annual Report for Audit and Standards Committee 2023-2024, attached as Appendix A to the report. The report would be submitted to Full Council in July, 2024 for approval.

Resolved

That the Annual Report for Audit and Standards Committee 2023/2024, be approved and referred to full Council at its meeting in July 2024.

66 **Audit and Standards Committee Progress Tracker and Future Business**

A report on the Progress Tracker and Future Business was submitted and in responding to a question raised by Councillor S Ali, the Chair circulated a copy of the e-mail he had sent outlining concerns and comments raised by the Committee in relation to the External Auditors Grant Thornton Annual Audit Plan 2022-23 and Annual Risk Assessment 2022-23.

Following further discussion, the response by the Cabinet Member of Finance, Legal and Human Resources acknowledging the concerns raised by the Committee was displayed at the meeting. Although welcoming a copy of the e-mail and response, Councillor S Ali raised concern regarding the brief response and suggested that an explanation of a comprehensive plan or proposed measures to be undertaken would have been more appropriate, and that it was apparent that there had been no action following concerns raised in July, 2023.

Councillor J Foster supported the comments made by Councillor S Ali and raised further concerns with regard to the governance of the Council and welcomed the introduction of the Independent Advisory Board to work with the Council to improve this area.

Resolved

That the information contained in the report submitted on the Audit and Standards Committee Progress Tracker and Future Business, be noted.

67 **Questions Under Council Procedure Rule 11.8**

There were no questions to the Chair pursuant to Council Procedure Rule 11.8.

68 **Exclusion of the Public and Press**

Resolved

That the public and press be excluded from the meeting for the following item of business, on the grounds of the likely disclosure of exempt information relating to any individual(s) and to the financial or business affairs of any particular person (including the authority holding that information) as defined under Part I of Schedule 12A to the Local Government Act 1972, as amended.

69 **Annual Fraud Report**

A report of the Director of Finance and Legal Services was submitted, on the work that Audit and Risk Management Services, and other Council teams, had undertaken and was planning to undertake to manage the risk of fraud and corruption across the Council. Appended to the report submitted was the proposed Fraud Action Plan for 2024/25 and further details of Fraud Investigations undertaken during 2023.

Arising from the presentation of the report submitted, Councillor J Foster queried whether future reports could be considered in public session and areas that were considered exempt under commercial sensitivity or references to individuals could be outlined in a separate private report.

In responding, the Monitoring Officer referred to the communication he had circulated following the last Committee meeting which included some benchmarking information to review the approaches taken by other West Midlands Councils and confirmed that further discussions would be held with the Head of Audit and Risk Management Services in advance of the new municipal year to further consider future reporting. Assurance was given that work was progressing in ensuring more information was publicly disclosed.

Members commended the work undertaken and made comments and raised questions with regard to action taken in relation to Blue Badge misuse enforcement, which was responded to at the meeting, and the Corporate Fraud Manager agreed to refer comments made to the team for consideration. The Corporate Fraud Manager also agreed to provide Members with comparative data prior to Covid on types of cases relating to abuse of position and employees suspected of not working all paid hours on designated duties.

Resolved

- (1) That the information contained in the report, be noted.
 - (2) That the Fraud Action Plan for 2024, attached as Appendix A to the report, be approved.
 - (3) That Officers provide Members with responses to questions raised at the meeting.
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70 **Chairman's Remarks**

As this was the last meeting of the municipal year, the Chair thanked Members for their attendance and contribution at the meetings and expressed thanks to officers for their assistance and valuable work contribution during the year.

The meeting ended at 7.40pm

CHAIR