

AUDIT AND GOVERNANCE COMMITTEE



Report subject	External Audit - Auditor's Annual Report 2021/22 & 2022/23 (Value for money arrangements report)								
Meeting date	7 September 2023								
Status	Public Report								
Executive summary	<p>The External Auditor, Grant Thornton for BCP Council, is required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness its use of resources.</p> <p>Auditors are required to report their commentary under specific criteria, namely financial sustainability, governance and improving economy, efficiency and effectiveness. They are required to report on any significant weaknesses they identify.</p> <p>The External Auditor has produced a 2021/22 and 2022/23 Annual Report which has identified the following weaknesses:</p> <table border="1"> <thead> <tr> <th>Criteria</th><th>Risk assessment</th></tr> </thead> <tbody> <tr> <td>Financial sustainability</td><td>Risks identified relate in the main due to uncertainties in relation to the Councils Medium Term Financial Plans and associated transformation programme and delivery of savings.</td></tr> <tr> <td>Governance</td><td>Significant risks identified in Governance in relation to leadership, partnerships and the Transformation programme</td></tr> <tr> <td>Improving economy, efficiency and effectiveness</td><td>Risk identified because of the inadequate rating issued by Ofsted in respect of children in care</td></tr> </tbody> </table> <p>Five significant weaknesses have been identified and have resulted in 5 key recommendations being made.</p> <p>A further 13 improvement recommendations have been made. The Council has provided the External Auditor with management responses to all the recommendations.</p> <p>The External Auditor has made a contextual comment that the May 2023 election has resulted in a change of political administration and an apparent change in financial strategy which will set a new tone from the top and will be an opportunity to address some of the issue raised in their report.</p>	Criteria	Risk assessment	Financial sustainability	Risks identified relate in the main due to uncertainties in relation to the Councils Medium Term Financial Plans and associated transformation programme and delivery of savings.	Governance	Significant risks identified in Governance in relation to leadership, partnerships and the Transformation programme	Improving economy, efficiency and effectiveness	Risk identified because of the inadequate rating issued by Ofsted in respect of children in care
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Recommendations	<p>It is RECOMMENDED that Audit & Governance Committee notes:</p> <ul style="list-style-type: none"> The findings, recommendations and management comments in relation to the External Auditor's Annual Report 2021/22 and 2022/23 (Value for Money arrangements report). 								

	<ul style="list-style-type: none"> The unusual approach of reporting both the 2021/22 and 2022/23 years as an agreed pragmatic approach to resolve and 'catch-up' on recent historic delays within the external audit process.
Reason for recommendations	To ensure that the Audit & Governance Committee are fully informed of the findings of the Council's external auditor following their Annual Report for the years ended 31 March 2022 and 2023, as set out in the report (Appendix 1) attached.
Portfolio Holder(s):	Mike Cox, Portfolio Holder for Finance
Corporate Director	Ian O'Donnell, Corporate Director for Resources
Report Authors	Nigel Stannard nigel.stannard@bcpcouncil.gov.uk Head of Audit & Management Assurance (Chief Internal Auditor)
Wards	Council-wide
Classification	For Information

Background




- Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), the external auditor is required to report whether, in their opinion, the group and Council's financial statements:
 - give a true and fair view of the financial position of the group and the Council and their income and expenditure for the year; and
 - have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.
- In addition, the external auditor is required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. External auditor's report their findings in this area in their Auditor's Annual Report sometimes referred to as the Value for Money conclusion, under the following three areas:
 - Financial Sustainability,
 - Governance
 - Improving Economy, Efficiency and Effectiveness
- Delays in the external auditing of local authorities, and indeed other public bodies, have been extensively reported both nationally and locally, to the BCP Council Audit & Governance Committee. Unusually, and to pragmatically resolve and 'catch-up' on some of the recent historic delays, Grant Thornton, the Council's external auditor, agreed with BCP Council that the 2021/22 and 2022/23 audit would be conducted in parallel and a single report covering both years would be produced.
- The Auditor's Annual Report (covering two years 21/22 and 22/23) is attached at Appendix 1. It sets out the findings of the Grant Thornton following their audit work to date. The external auditor emphasises that the report is open to revision to the point at which the 2021/22 or 2022/23 audits of the financial statements are concluded.
- Appendix 1 also includes the Council's management response to issues and recommendations made.

6. The 2021/22 audit of the Council's financial statements is on-going, as at 23 August 2023 Grant Thornton expect the audit to be concluded by the end of November at the latest. The timing of the 2022/23 audit of the Council's financial statements will be reviewed once the 2021/22 audit process is completed.

Auditor's Annual Report 2021/22 & 2022/23 - Value for Money arrangements and key recommendations

7. The conclusions of the external auditor are summarised as follows:

Criteria	Risk assessment	2021/22 Auditor Judgment	2022/23 Auditor Judgment
Financial sustainability	Risks identified relate in the main due to uncertainties in relation to the Councils Medium Term Financial Plans and associated transformation programme and delivery of savings.	2 Significant weaknesses in arrangements identified (SW1) and (SW2), 2 key recommendations and 4 improvement recommendations made.	2 Significant weaknesses in arrangements identified (SW1) and (SW2), 2 key recommendations and 4 improvement recommendations made.
Governance	Significant risks identified in Governance in relation to leadership, partnerships and the Transformation programme	No significant weaknesses in arrangements identified, 7 improvement recommendations made	1 Significant weaknesses in arrangements identified (SW3), 1 key recommendation and 7 improvement recommendations made
Improving economy, efficiency and effectiveness	Risk identified because of the inadequate rating issued by Ofsted in respect of children in care	2 Significant weaknesses in arrangements identified (SW4) and (SW5), 2 key recommendations and 2 improvement recommendations made	2 Significant weaknesses in arrangements identified (SW4) and (SW5), 2 key recommendations and 2 improvement recommendations made

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

8. The 5 significant weaknesses (SW) identified by the External Auditor results in the following key recommendations:

SW1 – Financial sustainability – Key Recommendation 1

The Council must

- Undertake an urgent review of the Transformation Programme. Our review found inherent weaknesses in the control and management of the programme, as well as the delivery of savings and management of costs.
- Ensure there is a robust methodology for monitoring and tracking operational and transformation savings and that reporting on actual performance against plan is more transparent.
- Ensure that the transformation programme is fully financed before further commitments to the programme are made.

SW2 – Financial sustainability – Key Recommendation 2

The Council must review the continued sustainability of Reserves and Balances and ensure the Medium-Term Financial plan (MTFP) demonstrates a realistic plan to replenish reserves and balance the budget gap in the medium term.

SW3 – Governance – Key Recommendation 3 (made for 2022/23 only)

The Council must not enter into high-risk and challenging projects without proper and full consideration of governance arrangements and ensure they are adhered to. Members must consider all advice from statutory officers and ensure they have best technical, professional and legal support before considering any high-risk and challenging projects.

SW4 – Economy, effectiveness and efficiency – Key Recommendation 4

The Council should continue to address the weaknesses identified by Ofsted, and the Department for Education (DfE) to ensure all children have access to quality services which meet their needs in a timely manner.

SW5 – Economy, effectiveness and efficiency- Key Recommendation 5

The Council must

- A) Ensure it has a robust decision making process in place for specific initiatives including the transformation programme, BCP FuturePlaces and other service delivery models as well as capital projects and small investments.
 - B) Ensure there is robust scrutiny and a sound business case for selling Council assets to fund the transformation programme. This should include a fit for purpose mechanism for developing a Business case, financial appraisal models, and sufficient programme management support to ensure programme objectives are identified, project plans are developed, objectives are delivered, and risk/reward and issues are identified and mitigated/enhanced.
 - C) Establish a regular cycle of reviewing business plans in relation to all high value and high-risk investments including its subsidiary companies such as BCP FuturePlaces.
9. In addition, thirteen improvement recommendations were made. (5 key + 13 improvement recommendation = 18 recommendations in total).
10. Management comments have been provided for all recommendations. Some of these comments may be enhanced given there has been limited time between receiving the report from External Auditor and the publication date for this Committee.
11. In the context of their report which is a look back at 2021/22 and 2022/23, the External Auditor has noted that the May 2023 local election, and the resulting change of administration, has led to some early indications of a change in approach to financial management. The External Auditor emphasises to the new administration, in their Executive Summary, the need to:
- Fundamentally review the Council's approach to financial sustainability.
 - Stocktake the transformation programme, what is deliverable at what cost.
 - Review current service provision to identify further savings to address the underlying deficit.

Options Appraisal

12. An options appraisal is not appropriate for this report.

Summary of financial implications

13. A number of findings and recommendations directly relate to the financial sustainability of the Council and impact on future budget setting and MTFP development.

Summary of legal implications

14. There are no direct legal implications from this report.

Summary of human resources implications

15. There are no direct human resources implications from this report. The financial implications above may have a resulting impact on human resource levels.

Summary of sustainability impact

16. There are no direct sustainability impact implications from this report.

Summary of public health implications

17. There are no direct public health implications from this report.

Summary of equality implications

18. There are no direct equality implications from this report.

Summary of risk assessment

19. The Auditor's Annual Report identified a number of risks which were considered as part of the management comments. Where appropriate, these will be further considered as part of the wider risk management review process and necessary mitigations agreed,

Background papers

None

Appendices

Appendix 1 – External Auditor – Auditor's Annual Report on Bournemouth, Christchurch and Poole Unitary Council 2021/22 & 2022/23