

Auditor's Statutory Recommendations Issued under s24 of the Local Audit and Accountability Act 2014

Extraordinary Council	2 November 2021
Report Author	Chief Executive
Portfolio Holder	The Leader, Cllr Ash Ashbee
Status	For Decision
Classification:	Unrestricted
Ward:	All

Executive Summary:

This is a report to Council to consider the statutory recommendations issued by the external auditor, Grant Thornton, on 12 October 2021. They are recommendations made under section 24 of the Local Audit and Accountability Act 2014 ("The Act").

Recommendations:

Council is asked:

1. To agree the recommendations as set out in the report from Grant Thornton;
2. To agree the actions which Grant Thornton has proposed.

Corporate Implications

Financial and Value for Money

The auditors have reported statutory recommendations for Council's consideration and approval, due to inadequate arrangements in governance with the direct financial costs adding further pressure to the Council's delicate financial position.

It has been well reported that the Council has relatively low reserves, compared to other district authorities, our historical reserve holdings and our risk profile. Moreover, the Council's 2022-23 Medium Term Financial Strategy, as reported in February 2021, identified an indicative budget gap of £1.8m for 2022-23 growing to £2.5m by 2024-25. The preparation of next year's budget is now underway and a 2022-23 Budget Strategy will be presented to Cabinet for approval on 18 November 2021. The strategy will set out an approach to close the budget gaps for next year and also across the medium term. Whilst the outcome of the budget process is uncertain, it is probable that the Council will face a

number of challenges and will have to make a number of difficult choices and decisions in order to achieve its financial objectives.

It is clear the direct financial costs of the governance and disciplinary matters have not helped the Council's financial position. From 1 April 2020 to date, expenditure incurred or monies set aside to address these issues total £733,000, as reported to Cabinet alongside the necessary budget approvals on 8 June 2021. This total includes legal costs to facilitate and advise on internal processes and external employment tribunals and other related staffing costs. However, members should also note that it may not be possible to contain the total costs to resolve all outstanding matters within the £733,000 budget envelope. The Council will be required to revisit this assessment as part of the audit of the 2020-21 accounts, expected for completion by the end of the calendar year, and it may be necessary to increase the budget allocation depending on the progression and resolution of any outstanding employment matters.

The third statutory recommendation is for the Council to agree to "Revisit the financial plans and identify additional savings plans to address the further cost pressures created in resolving the grievance and whistleblowing complaints". The Director of Finance and acting s151 Officer agrees with the substance of this recommendation and agrees that it should be an objective for the Council to restore and repair the reserve balances that have been drawn down to finance these costs. However, the reality of the Council's budget position and the size of savings that already need to be identified and implemented to close the budget gaps over the medium term mean that it is likely to be extremely challenging to implement this recommendation both from an operational and political perspective. In simple terms, the restoration of £733,000 reserve balances would require an annual c.£180,000 budgeted contribution to reserves across the medium term, which effectively stretches the savings target over and above the savings that will already be required to close the budget gap.

As part of the budget setting process, the s151 Officer is required to report to Council on the adequacy of reserves and robustness of budget estimates, this is a statutory duty referred to as the Section 25 report. The Section 25 report will consider adequacy of the Council's reserves in a holistic manner, within the context of all the financial pressures and risks faced by the authority. Subject to the agreement by members, the action recommended by the external auditor will therefore both inform and be informed by the Section 25 report.

Finally, under Schedule 7 of Local Audit and Accountability Act 2014, paragraph 2(4), the external auditor may recover costs of their work in issuing the recommendations from the Council:

"(4) A local auditor may recover from a relevant authority—

- (a) the reasonable costs of determining whether to make a recommendation relating to the authority or an entity connected with it, and
- (b) the reasonable costs of making a recommendation relating to the authority or an entity connected with it."

At present these costs are unknown, but will be reported to the Governance and Audit Committee along with other relevant audit fees.

Legal

Section 24 of the Local Audit and Accountability Act 2014 refers to Schedule 7, paragraph 2(1) of The Act under which the auditor can make written recommendations to the Council:

“A local auditor of the accounts of a relevant authority may make a written recommendation to the authority relating to the authority or an entity connected with it, so that the recommendation can be considered under this Schedule.”

Schedule 7, paragraph 5(6) sets out how the Council must decide on the recommendations:

“At that meeting the relevant authority must decide—

- a) whether the report requires the authority to take any action or whether the recommendation is to be accepted, and
- (b) what, if any, action to take in response to the report or recommendation.”

Corporate

The Council must consider these recommendations and proposed actions within a public meeting of the full Council within one month of the recommendations being issued.

Equality Act 2010 & Public Sector Equality Duty

No implications

CORPORATE PRIORITIES

- Communities

1.0 Introduction and Background

- 1.1 Earlier this year, the Chief Executive and Group Leaders requested that the external auditors, Grant Thornton, carried out a review of culture and governance at the Council. The review was noted by the Governance and Audit Committee at its meeting on 3 March 2021, when the Committee requested that the review be undertaken in the first quarter of 2021.
- 1.2 As part of that process, Grant Thornton considered their Value for Money conclusion on the 2019/20 accounts.
- 1.3 On 21 July, Sarah Ironmonger, the auditor, wrote to the Chair of Governance and Audit Committee, with an interim letter, as requested by the Chair, with her interim findings into her Value for Money conclusions. The letter was discussed at the meeting of the Governance and Audit Committee on 28 July. The meeting was held in private, as Ms Ironmonger made clear that she was presenting interim findings.

- 1.4 On 12 October, Ms Ironmonger issued statutory recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014. She has shared those recommendations with the Department of Levelling Up Housing & Communities (DLUHC) as required under The Act.
- 1.5 The link to the recommendations and the background report is on the Council's website and can be found here:
<https://www.thanet.gov.uk/external-audit-report-issued-to-thanet-district-council/>

2.0 The Current Situation

- 2.1 The Council must consider the recommendations and actions it will take to address them, in a public meeting, held within one month of the issue of the recommendations. If the recommendations and actions are accepted, the Council must provide regular updates to the external auditor and the DLUHC.
- 2.2 In respect of the first recommendation, possible candidates are to be selected by the Leader and the Chief Executive.

3.0 Next Steps

- 3.1 If the recommendations are agreed, the Council will formally notify the auditor of the decisions and publish a notice containing a summary of the decisions which has been approved by the auditor. The notice will be published on the Council's website and will also be published more widely to bring it to the attention of residents. This is in accordance with Schedule 7, paragraph 10 of The Act
- 3.2 The auditor and DLUHC will receive regular updates of progress of work to address the recommendations.

Contact Officer: Madeline Homer, Chief Executive

Background Papers

Grant Thornton statutory Recommendations 12 October 2021:

<https://www.thanet.gov.uk/external-audit-report-issued-to-thanet-district-council/>

Corporate Consultation

Finance: Chris Blundell (Director of Finance)

Legal: Estelle Culligan, Director of Law and Democracy and Deputy Monitoring Officer