

# External audit: progress report for Birmingham City Council

**Audit years 2020-21, 2021-22,  
2022-23 and 2023-24**

24 April 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This progress report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260.

**Name:** Mark Stocks  
**For** Grant Thornton UK LLP  
**Date:** 11 April 2024

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# Financial statements audits – 2020/21 and 2021/22

As reported at previous Audit Committees, the financial statements of the Council for the years ending 31 March 2021 and 31 March 2022 both remain open. The most significant outstanding factor from both is the Council's Equal Pay liability.

We have continued to progress these audits but we have yet to receive the evidence we need to complete our work. We continue to liaise with the Council on these matters.

# Financial statements audits – 2020/21 and 2021/22 (continued)

## Issue

## April update

### Equal Pay provision

A fresh analysis of the Council's equal pay liability has been conducted which will give a more accurate estimate of the financial position and will require significant adjustments to be made to the financial statements.

#### Provision of models

We received provisional models on 29 November 2023 for the years ending 31 March 2020, 31 March 2021, and 31 March 2022. We subsequently received updated models on 31 January 2024, following the work that we performed to confirm the completeness of the source data being used within those models.

#### Audit work proposed

We are working with officers to:

- Obtain assurance over the completeness and accuracy of the source data being used to feed the models;
- Understand and audit any judgements and assumptions that have been applied to the source data; and
- Challenge the judgements and assumptions being applied, as set out in the Council's accounting paper referred to in our November update.

#### Audit work performed

We have observed officers running the source data reports, and performed spot checks on the data within them, in order to gain assurance that the parameters used for these reports were appropriate, and the data within them is complete;

We have selected samples of employee records from within the models to test the accuracy of the source data, however we await evidence to allow us to complete our testing of these items;

We have considered the key judgements and assumptions used within the modelling approach, and challenged a number of these. This challenge has been an iterative process, and we are awaiting responses to our queries in several areas. We are not able to progress the audit until these queries have been resolved.

We will need to seek external expert opinions on a number of the judgements and assumptions used. We will shortly begin the process of seeking expert opinion on these judgements and assumptions.

#### Summary

The audit is progressing slowly and we are not yet in a position to confirm the estimated liability. We continue to liaise closely with the Council but it is important that we make substantial progress on this part of the audit during April and May.

# Financial statements audits – 2020/21 and 2021/22 (continued)

Issue	April update
Oracle impairment assessment	<p>The Code requires that assets are carried at no more than their recoverable amount (recoverable through sale or use). The Council's assessment and proposed treatment in relation to this issue was provided in early November.</p> <p>We have provided responses to the Council's proposed treatment (November 2023) and received a revised paper in March 2024 along with supporting ledger downloads, though some requested information is outstanding, which officers are in the process of providing. We are in the process of reviewing what has been provided to date so that we can select transactions for testing.</p>
Actuarial valuation under IAS 19	<p>The LGPS underwent a full triennial valuation at 31 March 2022, the results of which are now available and are a more accurate estimate of the Council's pension liability at that date than the previous roll-forward estimate.</p> <p>We have asked officers to confirm with the actuary to what extent the Equal Pay liability will need to be reflected in the IAS 19 valuation and to also consider the impact of the triennial valuation on the Children's Trust, given that it is a significant consolidated component in the group accounts.</p> <p>A partial response was forwarded to us from the actuary on 1 November. The Council has considered the response and is in the process of requesting a further report from the actuary to inform any adjustments that might be necessary in the financial statements.</p> <p>This has been the status of this matter for sometime as we understand that the Council is facing challenges in obtaining a response from its actuary.</p>
Property valuations (2021/22 only)	<p>A small number of queries remain outstanding to complete our work on the Council's property valuations in 2021/22.</p> <p>These queries have now been resolved. The work is complete, subject to final quality reviews, and receipt of updated financial statements showing the agreed adjustments.</p>
Capitalisation	<p>We reported that we would be undertaking a more extensive review of the Council's approach to capitalisation, focussing on the risk that revenue expenditure had been deliberately capitalised as a means of reducing the pressure on the I&amp;E account.</p> <p>This testing is reasonably well progressed, with queries outstanding on 5 items for the 2020/21 financial year, and 3 items for the 2021/22 financial year. No issues have been identified through this work to date, although the work remains subject to final quality reviews.</p>

# Financial statements audits – 2020/21 and 2021/22 (continued)

Issue	April update
<p><b>Housing Revenue Account</b></p>	<p>We will undertake a detailed review of the interface between the General Fund and the HRA to ensure that proper (and lawful) distinction had been made between those costs attributable to the Council’s landlord function and those more appropriate to be categorised within the General Fund.</p> <p>The Council has provided transaction listings of expenditure which has been applied to the Housing Revenue Account. A sample of items was selected for each of the 2020/21 and 2021/22 financial years, and our work on these samples remains ongoing. We have had productive discussions with finance staff about the evidence that we will require for these items, which the Council is working on at the time of writing this report.</p>
<p><b>Grants</b></p>	<p>We will be performing a detailed challenge of the Council’s use of grants to ensure that they have been applied according to the conditions of grant. As part of this we will consider in detail the application of any grants which are ring-fenced, such as the Public Health ring-fenced Grant.</p> <p>We have selected a number of grants from both the 2020/21 and 2021/22 financial years in order that we can review the contract agreement and the related expenditure. The Council provided initial responses for all of the items selected, but we have raised a number of follow-up queries on this information.</p>
<p><b>Land and property sales</b></p>	<p>We will consider whether proper consideration has been obtained and whether the impact of any related parties has been appropriately dealt with. We identified losses on the sale of assets for testing. Supporting evidence was received from the Council, and no issues have been identified through this work, subject to final quality reviews.</p>
<p><b>Highways PFI</b></p>	<p>Given the Council’s communication with Government regarding its Highways PFI we will need to consider whether there are any accounting implications (adjusting or disclosure) that have not been reflected in the accounts, such as impairment of valuations or contract liabilities.</p> <p>Officers have prepared a paper considering the accounting implications which we have raised queries on and are awaiting a response.</p>
<p><b>Regulator of Social Housing</b></p>	<p>The Council will need to consider whether there are any adjusting or non-adjusting Post Balance Sheet events attributable to the Regulator of Social Housings assessment of the Council’s performance against the Decent Home Standard.</p> <p>Officers have prepared a paper setting out the accounting implications, which we are in the process of reviewing.</p>

# Financial statements audits – 2020/21 and 2021/22 (continued)

Issue	April update
<b>Related Parties</b>	<p>We will extend our consideration of related parties, particularly in relation to procurement and contracting.</p> <p>This is being considered where relevant as part of all the workstreams set out above. Additionally, the Council has reviewed the list of all related parties, and compared to the contract register to ensure disclosure is complete and accurate. Further information is outstanding from procurement and on receipt of this, we will progress our consideration of the review undertaken.</p>
<b>Management override of control</b>	<p>To reflect the risks set out above, we have reopened our journals work and selected further transactions to test, which officers are in the process of providing evidence for. We are seeking assurance of what the journal is for, that it is appropriately authorised and that it has relevant business rationale.</p> <p>We have identified a number of additional transactions that we deem to be of highest risk from the full population of transactions in the general ledger for both the 2020/21 and the 2021/22 financial years. Our work on these items remains ongoing. We have had productive discussions with finance staff about the evidence that we will require for these items, which the Council is working on at the time of writing this report.</p>
<b>AGS update</b>	<p>The Annual Governance Statement will need to be updated to the point that the accounts are signed.</p> <p>We received an updated AGS for either the 2020/21 or the 2021/22 financial year on 9 April 2024. We are currently considering the completeness and appropriateness of the proposed updates.</p>
<b>Perry Barr</b>	<p>The Council and its Partners have incurred significant expenditure on the Perry Barr development (former athlete's village for the Commonwealth games).</p> <p>We have made enquiries of managements as to: the capital expenditure that has been incurred to date (split between relevant financial periods), the current position on asset recognition in the accounts, and the likely recovery through the asset sale and if there is a resulting loss, how and when will it be recognised.</p> <p>We are awaiting management's response.</p>

# Financial statements audit - 2022/23 and 2023/24

## Background and Audit Approach

The audit of the 2022/23 financial statements is significantly delayed. This is primarily due to 2 reasons:

- Oracle – the Council has experienced significant problems from the implementation of its new Enterprise Resource Planning (ERP) IT system, Oracle Cloud, leading to anticipated additional costs of (total costs of £100m compared to an initial budget of £38.7m as approved by Cabinet in March 2021). This has significantly impacted on the Council's ability to operate business-as usual activities, due to the workarounds and manual interventions needed to operate the system.
- Equal pay – as outlined in the previous slides the Council's equal pay liability is significant and the focus of the Council has been on putting in place an appropriate Job Evaluation process.

Due to these issues the Council has been unable to produce

- An outturn position for 2022/23
- A set of financial statements for 2022/23.

We have outlined to previous committees that we would undertake our audit in two phases:

Phase 1 – this comprises of a consideration of IT controls and security, Data Migration, and core processes. These core processes are: system controls; journal controls (because they're associated with the significant risk of management override of controls and fraud); control account reconciliations (as a fundamental financial reporting control); and cash (due to the failures in the cash posting system and the significant backlog that arose). This phase is now completed.

Phase 2 – this will comprise of detailed testing on all integrated and non-integrated systems. It will require substantive testing of transactions within those systems. We estimate as a minimum that this will take a period of 12 months to complete.

The matters outlined on the following pages equally impact the 2023/24 financial statements audit.

# Phase 1 - implementation of ERP system (1)

**ERP implementation - Oracle Cloud** – The programme has experienced significant slippage, and the Council has incurred costs in excess of those envisaged in the initial business case. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the implementation as is, and the resulting manual interventions in place, are not conducive to producing financial statements which are supported by sufficient and auditable evidence.

## IT controls and security

We have concluded that:

**Integrations** – There is significant risk over the completeness of data from feeder systems, i.e. that entries posted were not complete or accurate. We note that there is a risk that the codes being posted to by the integrations are incorrect, undermining confidence in the integrity of the data. The issue primarily impacts the balance sheet position (debtors, creditors, and cash). This is further compounded by the lack of audit logs across the board which mean that a detailed review of failed integrations cannot be retrospectively performed.

**Segregation of Duties (SoD)**– similar SoD issues exist in Oracle as were identified with SAP, although the extent of problems are more far reaching with Oracle Fusion. However, the audit team had the ability to drill down into the SAP transaction postings to understand the nature of the posting. Furthermore, SAP was stable in terms of the business processes being operated. This meant that the risk around excessive privileged access could be isolated to manual journals being posted to account balances and the integrity of system reports. As management descope the implementation of Oracle Risk Management Cloud as part of the original programme we do not have this ability in Oracle and it is not possible to review the actions of users (privileged or otherwise) as to whether there were any unauthorised changes to configurations, users, or data, since audit logs were not activated from the point of go live. This significantly increases the risk of error or fraud.

**Financial Reporting** – the Council has identified several issues with the reports generated from Oracle. This includes access to reports on personal data not being appropriately restricted, i.e. schools were able to see the salaries of other schools in the area. Other issues included that a number of reports had not been built at all which restricted the effective monitoring of Oracle post go live. There is also uncertainty over the effectiveness of budget monitoring. The lack of regular budget monitoring at a granular level means that errors have not been not detected in a timely manner. There is a risk that transactions are coded incorrectly, which carries a presentational risk to the financial statements to the face of the Comprehensive Income and Expenditure Statement, as well as the Expenditure and Funding Analysis and narrative report disclosures of the outturn reported to members.

## **Change in Key Personnel**

Since the start of the programme, there has been significant turnover in personnel. Of the current staff, none of them were involved in original implementation. The Council's current focus is on fixing issues going forwards rather than addressing former problems (with the exception of significant transaction backlogs). BCC had a large team supporting SAP. The current Oracle team size is in flux as BCC are not sure what a stable Oracle solution looks like and therefore what sort of support they would need in place and it is clear that BCC has not made the same level of progress to identify Subject Matter Experts within finance. Given the complex nature of BCC and the level of customisation that has been made to Oracle, the issues identified give rise to significant uncertainty over the effective operation of the standard and non-standard functionality within the system. This increases the risk of undetected error.

# Phase 1 - implementation of ERP system (2)

**ERP system implementation - Oracle Cloud** – The programme has experienced significant slippage, and the Council has incurred costs in excess of those envisaged in the initial business case. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the implementation as is, and the resulting manual interventions in place, are not conducive to producing financial statements which are supported by sufficient and auditable evidence.

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## IT controls and security continued

### Scale of Unresolved Issues

Management have confirmed that they have not got time to go through all issues identified over last 12 months. There are a number of issues for resolution - some are small, and some are more fundamental. A significant amount of the system had to be adapted rather than adopted with non-standard Oracle functionality (such as custom extensions and integrations). BCC officers confirmed that the majority of non-standard functionality sits within finance. Given the complex nature of BCC and the level of customisation that has been made to Oracle, the issues identified give rise to significant uncertainty over the effective operation of the standard and non-standard functionality within the system. If no retrospective review is performed, or the retrospective review is not performed at a sufficiently precise level of detail, it would be unlikely that substantive audit testing would be able to provide the level of assurance required.

### Conclusion

Segregation of duties, Change in Key Personnel and Scale of unresolved issues – due to these issues, and in particular the non implementation of Oracle Risk Cloud and audit logs we do not consider that we can place reliance on the Council's IT control environment.

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# Phase 1 - implementation of ERP system (3)

**ERP system implementation - Oracle Cloud** – The programme has experienced significant slippage, and the Council has incurred costs in excess of those envisaged in the initial business case. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the implementation as is, and the resulting manual interventions in place, are not conducive to producing financial statements which are supported by sufficient and auditable evidence.

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## Data migration

The IB programme moved transactional and master data relating to Finance and Procurement and HR & Payroll modules from SAP to Oracle. All transaction data that was posted into SAP up to and including 31 March 2022 was migrated by Egress, a third party migration services, using automated data tools. As the Go live date on Oracle was set as 11 April, the project created a transitional plan for transactional postings between the year end and 11 April as well as subsequent adjustments during the year and at the year end close process. These posting were manually migrated in three separate stages via a batch load.

Egress performed the reconciliations for all data loaded through automated methods. The nature of the checks included completeness and accuracy. Where Egress identified discrepancies in the automated data loads service tickets were raised and passed on to the Council's Subject Matter Experts (SMEs). SMEs had responsibility for closing off each service ticket.

**Data reconciliations** – we inspected the reconciliation trackers and approvals for the reconciliations. We did not identify any concerns re the completeness and accuracy of automated and manual data loads.

**Resolution of data issues** – through our inspection of data reconciliations and closure reports we identified that defects had been raised. However, we initially could not obtain sufficient evidence to demonstrate how each defect was addressed as there was a lack of sign-off evidence from the Council's SMEs. We have now received this information and are undertaking substantive work on particular service tickets to determine appropriateness of resolution and subsequent closure of old tickets via sample testing.

**Security roles and segregation of duties** – as outlined earlier, we have been unable to obtain assurance regarding the segregation of duty conflicts in Oracle. As such, we have been unable to obtain assurance that data was not altered during the migration.

## **Conclusion**

Due to the lack of evidence support the resolution of data migration issues and the lack of segregation of duties within the ERP system we have been unable to gain assurance that the data migration is free of error or fraud. Officers are confident that this information is available and our IT team are doing additional work in this area.

# Phase 1 - implementation of ERP system (4)

**ERP system implementation - Oracle Cloud** – The programme has experienced significant slippage, and the Council has incurred costs in excess of those envisaged in the initial business case. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the implementation as is, and the resulting manual interventions in place, are not conducive to producing financial statements which are supported by sufficient and auditable evidence.

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## Journals

Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.

The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

In our view this risk has been escalated due to the issues arising from the implementation of ERP system, and the emergence of an Equal Pay liability. As reported earlier, there are significant weaknesses in the controls operating over the ERP system such that we cannot place reliance over IT control. These has impacted on business processes such as holding accounts, suspense accounts and control accounts. It has also impacted on transactional controls over cash and other financial systems..

We also note that the accounting estimate for Equal Pay has increased significantly. The assessment of this liability of complex and relies on financial models, data accuracy, and a number of critical judgements re potential liabilities

We have discussed our risk identification with officers and note:

Journals - Officers have confirmed that only a limited number of journals have been processed during the year (figure to be confirmed). They have indicated that they have tested a number of these journals. We note that some of the journals are cash journals and have a significant level of transactions within each journal. Officers have confirmed that appropriate documents have been maintained to support these transactions. On this basis we have determined that journals should be auditable.

Holding accounts, suspense accounts and control accounts – officers have confirmed that holding and suspense accounts have been maintained and the majority have been well managed. Similarly, officers have confirmed that ledger control accounts were introduced part way through the year but that there is a reconciliation between the ledger and each sub-system. On this basis we have determined that journals should be auditable.

Accounting policies, accounting estimates, and critical judgements –officers have confirmed that there are no significant changes to accounting policies. There are material changes to accounting estimates and critical judgements, most notably, with regard to the calculation of the Council's estimated equal pay liability.

## **Conclusion**

We have concluded that it would be possible to undertake an audit of these areas.

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# Phase 2 - Core processes (1)

## Consideration of Core Processes

ISA (UK) 315 (Revised July 2020) requires us to obtain an understanding of how transactions are initiated, recorded, processed, corrected and incorporated into the general ledger as well as how information about events or conditions (other than transactions) are captured and included in the financial statements.

Further, it also requires us to look at specific considerations in relation to IT and to obtain an understanding of how information flows through the information system. Ultimately auditing standards demand us to obtain an understanding of the IT environment surrounding the preparation of financial statements and supporting disclosures, as well as all significant classes of transactions and account balances and disclosures, which are those areas where we consider the risk of material misstatement to be greater than remote.

Given the complex nature of the Council and the level of customisation that has been made to the ERP system, the issues identified give rise to significant uncertainty over the effective operation of the standard and non-standard functionality within the system.

We have substantially documented our understanding of the key financial systems of cash; journals; holding accounts; fees and charges; grants; housing benefit; council tax and business rates; non pay expenditure; payroll; accounts payable; and property, plant and equipment. Our work on accounts receivable is still underway but we now consider that we have sufficient information to document our assessment of risk. This is detailed on the following pages.

## Conclusion

We consider that the majority of the Council's business processes have been negatively impacted by the inadequate implementation of the ERP system and consider that weaknesses existed in the majority of financial systems for both 2022/23 and 2023/24. We have concluded that these weaknesses are of such significance that we cannot rely on system controls for the purpose of the audit.

We have concluded that we would need to undertake an enhanced substantive approach to the audit.

# Phase 2 - Core processes (2)

Business Process	Deficiencies	Impact on scoping
PPE Additions and REFCUS	<ul style="list-style-type: none"> <li>Capital spend monitoring processes and controls have not been operating in line with pre- Oracle implementation. This lack of oversight increases the risk of financial misreporting.</li> <li>Throughout the year there have been imbalances between the General ledger and the capital projects module (PPM). The capital projects team were unable to run a report to identify the imbalances therefore this required manual intervention to investigate and resolve the issues.</li> <li>The identification and correction of imbalances between PPM and the general ledger ceased at period 12, and PPM has not been used for closedown. £150m of capital accruals are within the ledger but not in PPM.</li> </ul>	Significant risk identified on the existence and accuracy assertions of additions to property, plant and equipment.
PPE Valuations - valuations	<ul style="list-style-type: none"> <li>In previous years the Council identified assets with over £250k expenditure incurred on them in year, which was sent to the valuer to assess whether this necessitated a revaluation. However this was not undertaken in 22/23 due to a change in the process for recording and monitoring capital spend. This represents a risk that assets as a group with significant capital spend may have a current value that is materially different to the carrying value in the accounts.</li> <li>It also represents a risk that for those assets that have been valued, the valuer may be unaware that there has been additions in year.</li> </ul>	Significant risk identified on the valuation and allocation assertions of property, plant and equipment.
Cash	<ul style="list-style-type: none"> <li>Approximately 20% of all automated postings are not being posted and are sat in unallocated cash.</li> <li>For automated postings, there were instances of income being posted to expenditure (or vice versa). We were advised that this was resolved in September 2022.</li> <li>There were instances of negative numbers being posted rather than a positive number because rules were set up inconsistently. We are advised that this was resolved in October 2022.</li> <li>When cash is allocated in the cash module and is then posted to Oracle , it is posted as a transaction on the same day. If the transaction it relates to is from the prior year this means the cash posting is sitting in the wrong year and the accounting records would be incorrect. In 23/24 £2 bn transactions posted in the wrong year which required correcting manually.</li> <li>Bank reconciliations were not completed regularly during the 22/23 financial year. In the year end bank reconciliation, there is a significant amount of reconciling items between the ledger and the bank statement. There is £25m of unallocated cash that we are advised won't agree to the ledger on an individual transaction basis.</li> </ul>	Significant risk identified on the existence, accuracy and completeness of cash.
NNDR	<ul style="list-style-type: none"> <li>The monthly cash reconciliations were not completed on the grounds of issues with cash coding as well as the lack of bank reconciliations undertaken. This means that line by line monthly cash reconciliation could not be done on a timely basis.</li> </ul>	Significant risk identified on the occurrence, accuracy and completeness assertions in relation to this income stream.
Council Tax	<ul style="list-style-type: none"> <li>The monthly cash reconciliations were not completed on the grounds of issues with cash coding as well as the lack of bank reconciliations undertaken. This means that line by line monthly cash reconciliation could not be done on a timely basis.</li> </ul>	Significant risk identified on the occurrence, accuracy and completeness assertions in relation to this income stream.

# Phase 2 - Core processes (3)

Business Process	Deficiencies	Impact on scoping
Expenditure & Payables	<ul style="list-style-type: none"> <li>Internal audit reported that the workflow process for One time payments was not operating correctly so the required compliance checks were not being completed. The workflow has now been rectified. Any payments with no supporting attachments will now be rejected. IA are in the process of completing a follow up and are undertaking a proactive analysis.</li> </ul>	Significant risk identified on the occurrence, accuracy and completeness assertions of expenditure.
Schools Cash - Bank Reconciliations	<ul style="list-style-type: none"> <li>Bank reconciliations not undertaken until significantly after the month end to which they relate.</li> </ul>	Significant risk identified on the existence, accuracy and completeness of cash.
School Operating Expenditure	<ul style="list-style-type: none"> <li>There have been miscoding of expenditure and income in year.</li> </ul>	Significant risk identified on the occurrence, accuracy and completeness assertions of expenditure.
Fees and charges and accounts receivable	<ul style="list-style-type: none"> <li>Our work is ongoing of these systems and we have yet to receive documentation from management with regard to accounts receivable.</li> <li>These systems rely to a high degree on the BRS. For much of 2022/23 direct debits and other types of payments were not effectively collected.</li> <li>Issues have arisen throughout the year with regard to the interface of the BRS system and the Council Tax and Benefit systems. Similar issues have arisen with regard to other finance streams</li> <li>Matters we are aware of include               <ul style="list-style-type: none"> <li>the Accounts Receivable subledger has not been reconciled to the total stated in the General ledger</li> <li>the opening balance on the Debtor control account in Oracle does not agree to our records</li> <li>due to the problems encountered with the Bank Reconciliation System (BRS) and Direct debits the automatic recovery action has been suspended with debt recovery action being progressed manually</li> <li>Internal Audit work on Adult Social Care debts found that the management arrangement between Accounts Receivable and the directorate was in urgent need of update and agreement as debts were increasing and decisions around future structure and resources needed.</li> </ul> </li> </ul>	Significant risk identified on the occurrence, accuracy and completeness assertions of expenditure.

# Phase 2 – Substantive testing (1)

## Financial statements audit 2022/23 and 2023/24

The matters impacting the 2022/23 financial statements are equally applicable to 2023/24. We consider that they are significant and that there is a significant likelihood that even with a substantial increase in the level of substantive testing that the audit would result in a qualified opinion.

We note the following:

- Controls have not operated throughout the period, ie the issues with the ERP, Cash, and other systems have applied throughout the two financial years
- The Council has yet to declare an Outturn for 2022/23
- The Council has yet to comment on when it will be able to produce its financial statements for 2022/23. We have assumed the earliest date for production to be 30 June 2024
- The proposed Backstop date for the audit of 2022/23 financial statements is 30 September 2024. We note that it is unlikely that we could complete the 2022/23 financial statements audit by the proposed Backstop date
- The Council has yet to report its financial position for 2023/24 and there is no clear timeline for the production of the financial statements. The proposed Backstop date for the audit of 2023/24 financial statements is 31 May 2025.

### Significant weaknesses, Materiality and levels of substantive testing

Due to these factors we would need to increase the number of areas where we consider that there are significant weaknesses. We would also need to reduce our materiality levels and increase the level of testing undertaken. The increase in cost and work for both ourselves and the Council would be significant.

### Next steps

We have engaged with Council officers and with Commissioners as to the benefit of undertaking the audits and the associated impact on the Council. Once we have reached a conclusion we will report to the Audit Committee how we plan to progress the audit.

# Overarching VFM and additional powers

## Equal Pay

### Background

The Council's current Equal Pay (EP) agenda is one of the most significant challenges that any Council in England has ever faced. Previous historical EP claims at the Council have been significant (exceeding £1 billion) and, over the last year, we have become aware of factors that have arisen since 2017, that have driven further claims, with a value currently estimated by officers of up to £760 million.

### Update – Job evaluation methodology

The Council has now put in place a Job Evaluation (JE) methodology. It is planning to implement a new pay and grading system by 1 April 2025. We have met with officers to discuss the processes that they are putting in place to ensure the effective implementation of a new pay and grading system. We are also meeting with the Lead Commissioner in April. Following this meeting we will agree with Officers and Commissioners whether we will undertake any further work in this area or will rely on the governance systems put in place by the Council.

We currently reviewing the chosen JE methodology and the revised 2023 Addendum to the Job Evaluation Joint Principles Document. We have received management's responses and are evaluating them.

We will report our findings as part of our wider VFM work.

### Update – historical review

We have now commenced our additional work on the Council's governance arrangements in relation to the management of equal pay claims. We have reported our key lines of enquiry to previous Audit Committee's.

We continue to undertake a number of interviews as part of our work and to seek additional documentation. We have been provided with access to legally privileged information. This release is subject to strict conditions and the information cannot be released into the public domain without the permission of the Monitoring Officer. We consider that these restrictions are reasonable.

We met with DLUHC regarding the planned inquiry (announced by the Secretary of State in Autumn 2023) and how this impacts our own work. We have determined that it is appropriate to continue our review for now. To avoid a duplication of work we will work closely with any inquiry.

We note that there are a number of legal matters, including employment tribunals, that need to be determined before we can conclude our work.

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# Overarching VFM and additional powers

## Financial Sustainability

### Background

The Council has Earmarked Reserves of £383m and Unearmarked Reserves of £230m. These are available to the Council. Earmarked reserves have been set aside to meet particular liabilities, or for particular purposes. Unearmarked reserves are available for use.

Given the additional financial pressures of EP referred to in the previous slide of up to £760 million, the Council has recently put in place a series of cost control measures to help it to stay solvent in the short-term. However, a number of further financial pressures have also been identified, including the costs of putting right the Oracle financial ledger system issues referred to in the following slide. As a result, the Council's Finance Director (s151 officer) is giving active consideration to the adequacy of the Council's reserves and future sources of additional funding it is likely to be able to secure, to ensure that the Council continues as a going concern.

Should the Council exhaust its levels of usable reserves and be unable to generate sufficient funding to sustain its revenue expenditure commitments (through savings, additional Government support, permitted capitalisation direction and borrowing, or asset sales) then it would cease to be viable and would be in breach of its statutory duty to have a balanced budget, or the imminent prospect of one. This would trigger the s151 officer's statutory duty to report under s114 of the Local Government Finance Act 1988 and could also trigger a s5 report from the Monitoring Officer under the Local Government and Housing Act 1989.

### Update

Our work is on-going in this area.

# Overarching VFM and additional powers

## Oracle

### Background

The Council has experienced significant problems from the implementation of its new Enterprise Resource Planning (ERP) IT system, Oracle Cloud, leading to anticipated additional costs of (total costs of £100m compared to an initial budget of £38.7m as approved by Cabinet in March 2021). This has significantly impacted on the Council's ability to operate business-as usual activities, due to the workarounds and manual interventions needed to operate the system. Due to these issues the Council has been unable to produce

- An outturn position for 2022/23
- A set of financial statements for 2022/23.

We have been monitoring the issues associated with the Oracle Fusion implementation, and the plans and further investment required for this programme's completion. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the governance and management of the programme present significant risks to the effective use of resources. Until these are resolved that the Council is at risk of not having adequate governance arrangements in place to ensure that it can effectively discharge its statutory responsibilities and maintain its financial sustainability.

We therefore determined that we need to undertake a review of the Oracle implementation.

### Update

Our interim report on the current and future operations was reported as part of the agenda for the 29 November 2023 Audit Committee. Our final report on the current and future operations was issued in draft in January 2023 and is part of the January Audit Committee agenda.

Our backwards looking review re the implementation of the Oracle ERP system is ongoing.

