

**SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Audit and Corporate Governance Committee

**DATE:** 22<sup>nd</sup> February 2023

**SUBJECT:** Accounts and Audit Update

**CHIEF OFFICER:** Steven Mair, Executive Director of Finance and Commercial (s151 Officer)

**CONTACT OFFICER:** Peter Worth, Finance Lead Technical Advisor  
Liton Rahman, Deputy Director Corporate and Strategic Finance

**WARD(S):** All Wards

**EXEMPT:** No

**APPENDICES:** The following appendices accompany this report:

<b>Appendix</b>	<b>Description</b>
A	Restated 2018-19 Accounts
B	Grant Thornton Audit Findings Report
C	Key areas of the Statement of Accounts reviewed and changes made
D	Prior period adjustments and in-year adjustments made
E	Summary of key changes to the core statements

## **1. Summary and Recommendations:**

- 1.1. This report presents the audited Statement of Accounts for 2018-19 subject to the issue of the audit opinion and provides an update on the preparation of the Council's 2019/20, 2020/21 and 2021/22 accounts. This report also includes Grant Thornton's audit findings report for 2018/19 which is set out at Appendix B. Because of the difficulties encountered during the audit which are set out below, Grant Thornton, as the Council's external auditors, have indicated that it is highly likely that the audit opinion which they will issue for the 2018/19 statement of accounts will be a disclaimer of opinion.
- 1.2. The Council is also required to carry out an annual review of the effectiveness of its system of internal control and to publish the outcomes of this review in an Annual Governance Statement (AGS) as part of the Annual Statement of Accounts. The AGS should reflect any changes up to the point that the Annual Accounts are approved.

### **Recommendations:**

- 1.3. The Audit and Corporate Governance Committee is recommended to:
  1. consider and comment on the draft Audit Findings Report of the External Auditor on matters arising from the audit of the Statement of Accounts 2018/19;
  2. recommend to full Council the following:
    - (a) consider and approve the 2018/19 Statement of Accounts;
    - (b) delegate authority to the Executive Director of Finance and Commercial, following consultation with the Mayor, to make any final minor amendments to the Statement of Accounts 2018-19 arising from the external audit prior to the signing by the auditor; and
    - (c) consider and approve the Addendum to the Annual Governance Statement for 2018/19 included in pages 3 to 9 of the restated accounts.
  3. refer to Cabinet the draft Audit Findings Report to note the issues arising from the preparation and audit of the statement of accounts set out in sections 2.3 to 2.9 in order to ensure that the findings are taken into account by Cabinet when making decisions and that any recommendations made by the external auditors are addressed.

### **Reason:**

- 1.4. Under the Accounts and Audit Regulations 2015 the Statement of Accounts must be approved by either full Council or a committee with delegated authority to approve the accounts. Once approval has been given, the Chair of the meeting is required to sign and date the Statement of Accounts.

## Commissioner Review

- 1.5. This report sets out the serious errors discovered with the 2018/19 accounts. The extent of the errors and the magnitude of them is unprecedented. Whilst the current finance team have spent considerable time, effort and expertise to correct the figures and present the adjusted statements the Committee has before them, the lack of proper records, the poor procedures and practices in place across the authority at that time have meant the auditors have no alternative other than to disclaim them. As far as the Commissioners are aware, this rating has never been given to a local authority accounts before.
- 1.6. It is almost certain that given the issues, the same errors will be found in the 2019/20 and 2020/21 accounts, as the new team were not in place until 2021/22, and proper practices were not introduced until they arrived.
- 1.7. The Improvement and Recovery Plan, which includes the Financial Improvement Plan, includes actions to rebuild proper processes and procedures – it is essential that this is implemented in full.

## 2. Report

### 2.1. Background

- 2.1.1. The Accounts and Audit Regulations 2015 contain detailed provisions as follows:
  - the requirement for local authorities to conduct an annual review and report on the effectiveness of their systems of internal control;
  - rules and expectations about the preparation, approval and publication of the annual statement of accounts,
  - arrangements for local electors and other interested persons to exercise their rights of inspection, objection and to question the local auditor.
- 2.1.2. The Regulations require local authorities to publish accounts showing how they have spent taxpayers' money each year. These accounts should be prepared in accordance with proper accounting practices, cover one financial year<sup>1</sup>, must be certified by the Chief Finance Officer (s151 Officer) and published by specific deadlines<sup>2</sup> following the end of each financial year. Once published, local authorities are required to provide local electors and other interested persons an opportunity to inspect the published accounts along with any related documents.
- 2.1.3. Following publication, the accounts will be subject to inspection by external auditors who have a right to access all relevant documents and records necessary to allow them to conduct their audit. Once the audit has been

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<sup>1</sup> A financial year runs from the 1<sup>st</sup> of April to the 31<sup>st</sup> of March each year

<sup>2</sup> See table 1 for deadlines

completed, the auditors are required to provide an opinion on whether the accounts comply with reporting requirements and are free from material errors. Auditors must also consider whether the local authority has adequate arrangements to secure value for money. The authority must then prepare and publish a set of audited accounts, taking into consideration any feedback from the auditor, within the specified deadlines<sup>2</sup>.

- 2.1.4. Proper accounting for public funds is central to democratic accountability and the external audit process provides assurance about the accuracy of the Council's published financial statements.
- 2.1.5. Timely financial reporting also helps to support informed decision making by confirming the level of balances and reserves the Council is taking into the next financial year. This informs the budget setting process, therefore, the time taken to prepare and audit the accounts affects the relevance of budget-setting information and the pace at which behaviours can be influenced in the new financial year.
- 2.1.6. Over the last few years there has been a significant deterioration in the number of audits being completed within the prescribed deadlines. This report explores the main reasons for the delay at a national and local level and outlines a plan of action for getting the Council's accounts and audit cycle back on track. Other local authorities have demonstrated that it is possible to deliver high quality accounts with no material errors which can be fully audited within six months of the financial year end. Slough Borough Council is a very long way from that as is the sector as a whole. However, if the actions set out in the Finance Improvement Plan separately reported Improvement and Recovery Board can be implemented then long-term improvements can be achieved.

## **2.2. National Context and Sector Issues**

- 2.2.1. There has been widespread coverage of the state of local government audit and the issues currently being experienced by local authorities and audit firms. The main issues include the following:

- **Audit contract** – In July 2016 Public Sector Audit Appointments Ltd (PSAA) was appointed by the Government to take on the role of Appointing Person for principal local government and police bodies. Under the Local Audit and Accountability Act 2014 (LAAA), local bodies had the option to opt-in to the appointing person regime and the appointing person would then appoint a private sector audit firm to conduct the external audit of the local body.
- As well as making auditor appointments, the PSAA is also responsible for setting fees and managing contracts with the audit firms. Whilst the PSAA is responsible for managing audit contracts, once an audit firm has been appointed, neither the PSAA nor the opted in body has any influence over how or when the audit is conducted or completed. The key deliverable for the audit firms is to

ensure that a quality audit is carried out but operational matters regarding how this is achieved are solely managed by the audit firm.

- **Reduced fees** – Over the initial five-year opt-in period, commencing in 2018/19, 98% of public bodies opted into the scheme and an aggregate saving of £30m in audit fees was anticipated through economies of scale for participating bodies. This means audit firms were expected to carry out audits of an increasing complexity at a fee significantly less than what had been charged in the past.
- **Shorter deadline** – From 2017/18 onwards the timescale for Local Authority accounts was shorter, with the accounts needing to be prepared by the Council by the 31 May (previously 30 June) and the audit completed on these accounts by the end of July (previously September). This meant that local authorities had to publish their unaudited accounts one month earlier and audit firms had two months less to complete their audit.
- **Resourcing** – It is widely known that there is a shortage of appropriately skilled and experienced auditors across all business sectors, which means that these resources have to be shared across most of the audit firms clients and therefore audit partners only have access to these resources for specified periods of time. Any delays in completing audit work or providing information can easily lead to delays of several weeks or months.
- **Regulation** – Audit firms are regulated by the Financial Reporting Council (FRC). The oversight of the FRC is intended to confirm compliance with auditing standards and the Code of Audit Practice. Following a number of significant financial failures in the audit sector, there is greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has meant that audit firms are applying greater focus in areas such as valuation of assets, IAS 19 pensions figures, related party disclosures and group accounts, which has resulted in additional work for local authorities and audit firms.
- **COVID-19** – The pandemic put pressure on the audit process by challenging normal ways of working. It posed practical challenges in terms of producing accounts and supporting evidence, and made it difficult for auditors to carry out on-site testing. Staff had to work remotely, and the second national lockdown came at a critical point in the audit cycle. Concern over the potential implications of the pandemic for some councils meant that auditors had to pay particular attention to the financial position of each audited body, thereby extending and complicating the audit work that needed to be done. As a result, the publication dates for the 2019/20 accounts were amended such that authorities were needed to publish unaudited accounts by 31 August 2020 and audited accounts by 30 November 2020. Despite the extension, 55% principal authorities' accounts remained open on 1 December 2020.

2.2.2. The issues highlighted above have resulted in a significant deterioration in the percentage of audits being completed within the prescribed deadlines. In response to this issue, the Government extended the deadlines for the 2020/21 and 2021/22 financial years (Accounts and Audit (Amendment) Regulations 2021). The 2021 Regulations amend the date for publication of the draft accounts from 1 June to the 1 August and the date for publication of the final accounts from the 31 July to 30 September for 2020/21 and 2021/22. The table below provides a summary of the deadlines over the last few years and the percentage of audits completed within these deadlines.

**Table 1: Publication deadlines and audit completion**

Financial Year	Draft accounts	Audited accounts	% Completed by deadline
2016/17	30/06/2017	30/09/2017	95%
2017/18	31/05/2018	31/07/2018	87%
2018/19	31/05/2019	31/07/2019	57%
2019/20	31/08/2020	30/11/2020	45%
2020/21	31/07/2021	30/09/2021	9%
2021/22	31/07/2022	30/09/2022	12%

2.2.3. The 2021 Regulations also include a new requirement for all local authorities to post a notice if they fail to publish their draft accounts by the deadline. The notice must state the reasons why it has not been possible to commence the period for the exercise of public rights. The draft accounts must be published as soon as reasonably practicable thereafter.

2.2.4. With effect from 2022/23, the date for local authorities to publish their draft accounts reverts to 31 May, but the audit deadline remains at 30 September for the years through to 2027/28.

### **2.3. The Council's Accounts as Originally Drafted up to and including May 2021**

2.3.1. The Council's previous s.151 officer published the first draft of 2018/19 Statement of Accounts on the Council website on 10 June 2019 – 10 days after the statutory deadline of 31 May 2019.

2.3.2. Four weeks after publishing the accounts on the Council website on 10 June 2019, a second version of the statement of accounts was provided to the auditors together with a revised trial balance on 5 July 2019.

2.3.3. A lack of working papers supporting the Council's accounts combined with the resourcing issues mentioned above, meant that the audit was not able to commence until 16<sup>th</sup> July 2019.

2.3.4. When the audit commenced in July 2019 it soon became apparent that the accounts had been issued without supporting working papers in many areas and had not been subject to any quality assurance before issue.

Furthermore, there were still significant delays experienced by the auditors in obtaining working papers to support the financial statements throughout summer 2019, causing the audit to be delayed further.

- 2.3.5. In particular, there were material errors in the opening balances for property, plant and equipment (PPE). To try to address this a third version of the statement of accounts was issued to the auditors on 6 January 2020, but this time including the PPE restatements and a third balance sheet.
- 2.3.6. By July 2020, the auditors had undertaken a significant amount of fieldwork which identified a number of major issues with both the evidence supporting the financial statements and the presentation of the accounts. Consequently, the auditors suspended the audit while these issues were addressed and a revised statement of accounts produced.
- 2.3.7. A fourth revised Statement of Accounts was issued by the previous s.151 officer on 3 March 2021 almost two years after the financial year-end. However, the covering report noted that there was a material overstatement of income due from one of the Council's companies and that the statement of accounts presented did not include the group accounts. In other words, this version still contained material errors and was still not a complete statement of accounts in line with financial reporting requirements.
- 2.3.8. The previous s.151 officer presented a fifth revised Statement of Accounts on 7 May 2021. Whilst the auditors were not in a position to issue an opinion on these accounts, they did present two reports, based on the work carried out to date, to the Audit and Corporate Governance Committee in May 2021. Both reports contained extensive criticism of the Council's arrangement for preparing the accounts and related matters which encompass seventeen recommendations and four statutory recommendations.
- 2.3.9. In particular, the statutory recommendations report highlighted a number of key internal control deficiencies in the preparation of the five versions of the accounts presented hitherto including:
  - Poor quality and incomplete financial statements presented for audit in July 2019;
  - Poor quality of working papers to support the financial statements;
  - Lack of audit trail to explain the link between the financial statements and the financial ledger and other supporting evidence;
  - Lack of review of the accounts and working papers before submission to audit;
  - Inadequate arrangements for routine reconciliation and review of debtors, creditors, and other balance sheet items;
  - Inadequate arrangements for bank reconciliations;

- Inadequate maintenance of the fixed asset register resulting in material errors in capital accounting entries in 2018/19 and previous years; and
- Poor governance, oversight and financial reporting in relation the Council's group accounts and group relationships.

2.3.10. The draft audit findings report dated 9 May 2021 also stated that the issues preventing an audit opinion at that stage were:

- a business rates appeal which had not been provided for.
- impairment of a loan to Slough Children's Trust;
- outstanding work to support bank reconciliations and debtor and creditor system reconciliations.

## **2.4. Progress Update on Accounts Preparation since May 2021**

2.4.1. A new leadership and Finance team was put in place to replace the previous finance team. The new Finance team, appointed in 2021, has considerable financial expertise and experience of working with or for other local authorities in the sector. The team has been responsible for reviewing the financial arrangements at the Council and overseeing the production of a revised set of accounts for 2018/19 since May 2021.

2.4.2. As can be seen from the issues reported above and the many fundamental issues uncovered by the new Finance team summarised in Appendix C, finalising the 2018/19 statement of accounts has been extremely difficult. The issues identified were of a quantum and scale rarely seen which has taken considerable time and effort to address. This has impacted timelines as reported at section 2.9 below.

2.4.3. The new Finance team have followed up the issues highlighted in the draft May 2021 audit findings report resulting in:

- the business rates appeals provision being increased by £4.5m in 2018/19;
- the loan to Slough Children's Trust being impaired by £2.4m; and
- work has been undertaken to re-perform bank reconciliations and ensure that debtor and creditor system reconciliations at 31 March 2019.

2.4.4. In addition to these previously reported issues, the new Finance team carried out an extensive review of the accounts and underlying processes and implemented changes as set out in Appendix C. In summary there were 22 key areas reviewed and corrected, 20 prior period adjustments and 7 material in-year adjustments made to the accounts.

- 2.4.5. The issues highlighted set out in Appendix C are interlinked, extensive and very complex in nature. Resolving the issues has resulted in the AGS, all of the core statements, the group accounting statements and 80% of the notes being amended. A list of prior period adjustments and in-year adjustments is set out Appendix D.
- 2.4.6. Whilst a considerable amount of work has gone into producing a statement of accounts which is fit for purpose, the initial starting position contained several underlying legacy issues. The new Finance team has had to undertake detailed reviews of the financial systems, attempt to re-create records held within and outside the financial management systems and conclude whether the information was available or not.
- 2.4.7. In addition, members of the previous Finance team who were involved in preparing the initial drafts of the accounts or posting accounting transactions were no longer employed by the Council by the time the new Finance team was put in place. Therefore, it has been difficult to obtain supporting evidence or explanations for transactions posted in 2018/19 and prior periods.
- 2.4.8. It should be emphasised that this is not to say that there was no supporting evidence when those transactions were initially processed or even that those accounting transactions were incorrect. However the absence of a clear audit trail and poor quality working papers mean that it has not been possible for the new Finance team nor the auditors to locate the evidence. These issues have clearly increased the complexity of preparing the accounts and the work required to correct errors.
- 2.4.9. In addition to the errors in the accounts, the new Finance team identified significant weaknesses in financial management, processes and systems of internal control. The most significant issues relate to the statement of accounts are listed below and these are likely to be encountered during the preparation and audit of the accounts for at least the following two financial years:
- Inadequate processes and controls over journals posted by the previous finance team, i.e. lack of supporting evidence and explanations for journal entries posted in the general ledger and adjusting entries to the trial balance.
  - Inadequate record keeping and audit trails, lack of good working papers and appropriate reconciliations, mapping issues within the financial statements.

## **2.5. Capitalisation Direction**

- 2.5.1. The Council has been in discussion with DLUHC since June 2021 about the potential for a significant Capitalisation Direction request and have provided them with regular updates as to the arising issues.

- 2.5.2. A final request was made in February 2022 that was agreed with the Council's DLUHC Best Value Commissioners. In response, Kemi Badenoch MP, the then Minister of State for Equalities and Levelling Up Communities wrote to the Council on 7 March 2022, stating that she was minded to issue Capitalisation Directions for the period between 2018/19 to 2022/23.
- 2.5.3. The "minded to" Capitalisation Direction issued in March 2022 for the period up to 2022/23 totalled £307m, of which £62m related to issues identified as part of the Council's review of the 2018/19 accounts.
- 2.5.4. Table 2 below provides a comparison of the original estimate for the Capitalisation Direction against the actual request following finalisation of the 2018/19 accounts. Whilst the final amount is higher than originally estimated, the issues identified are historical in nature and were not mentioned in any reports or working papers prepared by the previous Finance team. In addition, as these issues have now been addressed, they are unlikely to re-occur in future years. The Capitalisation Direction model has been updated to reflect these changes and future years have been amended accordingly.

**Table 2: Pre-2019/20 Capitalisation Direction**

<b>Issue</b>	<b>Estimate £000s</b>	<b>Actual £000s</b>	<b>Difference £000s</b>
Capitalisation of Agresso Support	4,234	3,018	(1,216)
Capitalisation of Property Staff	3,448	7,205	3,757
Transformation Funding	14,056	15,504	1,448
MRP	32,871	32,871	0
Capitalisation of Overage Income	7,100	3,633	(3,467)
Inadequate provisions		2,540	2,540
Write-off unsubstantiated debtors & creditors		8,530	8,530
Revenue outturn		4,714	4,714
<b>Total</b>	<b>61,709</b>	<b>78,015</b>	<b>16,306</b>

- 2.5.5. Therefore in addition to the other adjustments identified above, the 2018/19 accounts have had to be amended retrospectively to reflect this additional Government support.

## **2.6. Summary of Key Changes 2018-19**

- 2.6.1. Key changes made to the accounts are summarised below in terms of their impact on the Council's usable and unusable balances at 31 March 2019. More detail on those adjustments are provided in Appendix E. In total these adjustments have reduced usable reserves by £7.469m and unusable reserves by £166.347m since the financial statements were initially prepared in June 2019 as set out in Table 3 below.

2.6.2. This represents a 43% reduction in the Council's net worth at 31 March 2019 and the accounts as they currently stand present a much more realistic assessment of the Council's financial position at that time and reflect the additional Government support which was obtained after the accounts were originally prepared.

**Table 3 Impact of the accounts changes to the reserves of the Council**

	<b>Version 1 issued 10 June 2019 £000s</b>	<b>Last version issued by previous Finance team 7 May 2019 £000s</b>	<b>June 2022 version produced by new Finance team £000s</b>	<b>Audited version February 2023 £000s</b>
Usable reserves	83,144	71,238	70,176	75,675
Unusable reserves	322,055	265,613	178,861	155,708
<b>Net Assets</b>	<b>405,199</b>	<b>336,851</b>	<b>249,037</b>	<b>231,383</b>

## 2.7. External Audit Progress Update

2.7.1. The draft Audit Completion Report contains matters raised by the auditor, their recommendations on those issues and the management response provided by officers. A further update on the progress of the audit will be given verbally at the meeting.

2.7.2. Due to the scale and size of the issues discussed above, the auditors were unable gain assurance that the accounts are free from material errors and are fairly stated for them to provide an unqualified opinion. Therefore, this means the audit opinion for 2018/19 will be a modified opinion. There are three types of opinions external auditors can issue depending on the circumstances:

### *Qualified*

2.7.3. Is issued when the audit team having obtained sufficient audit evidence, concludes that:

- misstatements, individually or in aggregate, are material (disagreement), but not pervasive to the financial statements or
- the audit team is unable to obtain sufficient appropriate audit evidence (limitation of scope) but the engagement team concludes that the possible effects on the financial statements of undetected misstatement, if any could be material but not pervasive.

### *Adverse Opinion*

- 2.7.4. Is issued when the audit team, having obtained sufficient appropriate audit evidence, concludes that material misstatements, individually or in aggregate, are both material and pervasive to the finance statements. Therefore, an unqualified opinion is not justified.

*Disclaimer of opinion*

- 2.7.5. A disclaimer of opinion is only issued when the possible effects of undetected misstatements due to the lack of audit evidence (a scope limitation) could be both material and pervasive to the financial statements. This is the opinion that will be applied to Slough's 2018/19 accounts. As far as is known it is the first time this has happened to a local authority and it reflects the serious weaknesses in financial processes during 2018/19.

**2.8. Implications for approving the statement of accounts**

- 2.8.1. Whilst the shortcomings in the preparation of the accounts up to May 2021 are undoubtedly serious and have led the auditors to determine that they will have to issue a modified audit report in the form of a disclaimer opinion, Members of the Council are still obliged to approve the Statement of Accounts as required under the Accounts and Audit Regulations 2015. This effectively discharging Members' obligations with regard to stewardship of public funds on behalf of local taxpayers.
- 2.8.2. The current Finance team have conducted a extensive re-write of the statement of accounts and made significant changes to the accounts as highlighted in sections 2.4 to 2.6 of this report. The pervasive issue which the auditors refer to in the disclaimer opinion relates to the inability of both the current Finance team and the auditors to locate the evidence supporting journals processed by the previous Finance team. As explained at paragraph 2.4.8 above, it does not mean that because this evidence cannot be found, the accounting entries are incorrect – just that it cannot be evidenced due to the poor quality of the audit trail and working papers.
- 2.8.3. In terms of the impact of the auditor's opinion on Members' understanding of the accounts, it does not mean that the accounts are necessarily materially misstated , but rather that the auditors have been unable to obtain sufficient, appropriate audit evidence to conclude with sufficient certainty whether or not the accounts are materially stated in a number of areas. It is this absence of sufficient evidence that has led to the auditors issuing a disclaimer opinion.
- 2.8.4. In relation to the statement of accounts as currently presented by the new Finance team, the impact is as follows:
- Comprehensive Income and Expenditure Statement – the line items in the Cost of Services level are uncertain, but evidence exists to support the remaining corporate items and other comprehensive income and expenditure;

- Movement in Reserves Statement – the adjustments made between usable and unusable reserves in 2018/19 have all been confirmed by the current Finance team;
- Balance Sheet – the balances on the face of the balance sheet have confirmed as follows:
  - Property, plant and equipment – ownership and existence have been checked, asset classification has been corrected and all assets are subject to revaluation over a five year period as appropriate to the asset classes;
  - Investment property – ownership and existence have been checked, asset classification has been corrected and all assets subject to independent valuation at 31 March 2019;
  - Long-term investments – ownership, existence, classification and valuation have been corrected and confirmed by the current Finance team;
  - Long-term debtors – ownership, existence, classification and valuation have been corrected and agreed back by the current Finance team to loans records and contracts;
  - Short-term investments – ownership, existence, classification and valuation have been agreed to Treasury records and counterparty evidence;
  - Short-term debtors and creditors – extensive work has been undertaken by the current Finance team prove balances to underlying records and after year-end movements which has resulted in writing off £4.8m of debtors which could not be substantiated;
  - Cash and cash equivalents – extensive work has been undertaken by the current Finance team which has agreed the balances reported;
  - Short-term and long-term borrowing – ownership, existence, classification and valuation have been agreed to Treasury records and counterparty evidence;
  - Short and long-term provisions – the current Finance team has undertaken extensive work to confirm liability and re-estimate provisions;
  - Long-term creditors – the balance was restated as a result of the work undertaken to correct the accounting for s.106 contributions;
  - Other long-term liabilities – the balance has been proved to third party evidence in respect of the pension liability and the PFI contract;

- Unusable Reserves:
  - whilst there are underlying uncertainties in the balances on the Capital Adjustment Account and the Revaluation Reserve arising from the incorrect capitalisation of property services salaries, these compensate each other;
  - the pension reserve has been restated and agreed to third party evidence in the form of the actuary's IAS19 report;
  - the Collection Fund Adjustment Account has been restated as part of the work on the Collection Fund and short-term debtors;
  - the financial instruments and pooled investments adjustment accounts have been agreed to underlying Treasury records and counterparty evidence;
  - the Accumulated Absences Adjustment Accounts has been restated; and
  - the remaining unusable reserves were unchanged.
- Cash Flow Statement – whilst the uncertainties highlighted by some of the line items in the CIES will affect lines within the cashflow statement, the statement itself reconciles in total to the cash and cash equivalents in the balance sheet;

2.8.5. Therefore, based on the extensive reworking of the statement of accounts summarised above, on balance, there is sufficient evidence to be assured that the balance sheet presents fairly the financial position of the Council as at 31 March 2019. Whilst there is some uncertainty over specific line items within the CIES, the cashflow statement and some of the supporting disclosure notes, management is satisfied that the overall General Fund balance is not materially misstated and can be used as a reliable basis for setting Council budgets going forward.

2.8.6. Furthermore the work undertaken by the new Finance team on the 2019/20 and 2020/21 statement of accounts has not highlighted any further material errors in relation to the balances brought forward from 2018/19. This provides additional assurance that debtors and creditors, in particular, were fairly stated at 31 March 2019 as such balances have a 12 month maturity.

2.8.7. On this basis, the statement of accounts is recommended to be approved by full Council.

## **2.9. Accounts and Audit Timeline**

- 2.9.1. Whilst the focus has been on finalising the 2018/19 accounts, officers have been working on preparing the accounts for the years from 2019/20 to 2021/22 at the same time.
- 2.9.2. The 2019/20 accounts were prepared and submitted to the auditors by 30 November 2022. However, these will need to be updated to reflect any final adjustments to the 2018/19 closing balances.
- 2.9.3. The 2020/21 accounts are also now nearing completion and are expected to be finalised by 28 February 2023.
- 2.9.4. With the most complicated issues now having been resolved, it is anticipated that the preparation of the accounts for the remaining 2021/22 and 2022/23 financial years will be much easier, and officers are aiming to complete both sets of accounts by the end of June 2023.

## **2.10. Annual Governance Statement**

- 2.10.1. The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SOLACE publication *Delivering Good Governance in Local Government: Framework* (2016 edition) meets the statutory requirement for a local authority to conduct a review at least once in each financial year of its systems of internal control and to include a statement reporting on the review with the Statement of Accounts as required by the Accounts and Audit Regulations 2015.
- 2.10.2. In this document the Council is required to:
  - acknowledge its responsibility for ensuring that there is a sound system of governance;
  - summarise the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
  - describe how the Council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
  - provide details of how the Council has responded to any issue(s) identified in last year's governance statement;
  - report on any significant governance issues identified from this review and provides a commitment to addressing them.
- 2.10.3. The Annual Governance Statement reports on the governance framework and the effectiveness of the systems of internal control in place at the

Council in the financial year and up to the date of approval of the statement of accounts.

- 2.10.4. Annual Governance Statements had already been completed for 2018/19 and 2019/20 and these were reviewed and approved by the Audit and Corporate Governance Committee in July 2019 and August 2020 respectively. These documents have had to be updated to reflect changes up to the point that the Annual Accounts for those years are approved. An addendum to the AGS for 2018/19 has been included in the restated accounts for approval.

### **3. Implications of the Recommendation**

#### **3.1 Financial implications**

- 3.1.1 There is a need to improve the processes and procedures for the completion of the annual Financial Statements. A detailed action plan is set out in the Finance Action Plan separately reported to Members.

#### **3.2 Legal implications**

- 3.2.1 The Local Audit and Accountability Act 2014 governs the work of auditors appointed to audit local authority accounts. There are also duties under regulations made under the Act, including the Accounts and Audit Regulations 2015. Public access to accounting information is governed by the Local Audit (Public Access to Documents) Act 2017.

- 3.2.2 Section 3 of the 2014 Act requires authorities to keep adequate accounting records. Adequate accounting records is defined as records that are sufficient

- (a) to show and explain the relevant authority's transactions,
- (b) to disclose at any time, with reasonable accuracy, the financial position of the authority at that time, and
- (c) to enable the authority to ensure that any statements of accounts required to be prepared by the authority comply with the requirements imposed by or under this Act.

- 3.2.3 The Accounts and Audit Regulations 2015 require Category 1 authorities to prepare a statement of accounts in accordance with the Regulations and proper practices. The accounts must include a narrative statement including comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

3.2.4 Under the Regulations the responsible financial officer must sign and date the statement of accounts and confirm that they are satisfied that it presents a true and fair view of:

- (i) the financial position of the authority at the end of the financial year and
- (ii) that the authority's income and expenditure for that financial year.

Following this there is a period for the exercise of public rights. There is a separate report on the agenda detailing the outcome of an objection by one member of the public.

3.2.4 Following the period of public rights, the responsible finance officer must re-confirm that they are satisfied that the statement of accounts presents a true and fair view of the financial position of the Council at the end of the relevant financial year and the income and expenditure. This should happen before the Council approves the accounts. The Council or delegated committee must consider the statement of accounts, approve the statement of accounts by way of resolution and ensure they are signed and dated by the person presiding at the committee or meeting at which approval is given.

3.2.5 Due to issues with historic record-keeping in particular, the Council's current responsible financial officer, who was not in post in 2018/19 has been unable to state that the statement of accounts are free from material error on an individual line by line basis, but can confirm that they are a true and fair presentation of the Council's overall financial position at 31 March 2019 to the best of his knowledge and belief and based on the records available. The accounts will therefore have to be considered taking account of that position.

### 3.3 Risk management implications

3.3.1 The improvement in financial reporting is a positive move for the Council and mitigates the risks on non-compliance with statutory responsibilities associated with failure to complete the annual financial statements. The AGS sets out the issues identified in the original 2018/19 AGS and an updated position as at January 2023. Many of the issues are marked as ongoing, although they are being worked on. Whilst improvements have been made, Council officers and elected members must keep these improvements under review to ensure that the issues seen in the 2018/19 accounts have been addressed in the new systems. This will be a key focus for the new permanent Executive Director of Finance and Commercial.

### 3.4 Environmental implications

3.4.1 There are no direct environmental implications arising from this report.

### 3.5 Equality implications

3.5.1 There are no direct equality implications arising from this report.

3.6 Procurement implications

3.6.1 There are no procurement implications arising from this report