

Extraordinary Audit and Corporate Governance Committee – Meeting held on Tuesday, 18th May, 2021.

Present:- Councillors Sabah (Chair), Wright (Vice-Chair), Ali, Akram, D Parmar (from 6.46pm), and S Parmar.

Co-Opted Members Alan Sunderland and Iqbal Zafar (until 8.45pm)

Parish Councillor Ahmed (Wexham Court)

Also present under Rule 30:- Councillors Smith, Strutton and Swindlehurst.

PART 1

46. Declarations of Interest

None received.

47. Going Concern Statement - 2018/19 Accounts

The Associate Director Finance informed the Committee of the S151 Officer's assessment of Slough Borough Council as a "going concern" for the purposes of producing the Council's Statement of Accounts for 2018/19. It was noted that the concept of a going concern assumed that an authority's functions and services would continue in operational existence for the foreseeable future. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

Details of the pressures the Council experienced in terms of lost income and additional expenditure due to Covid-19 were highlighted.

The 2021/22 financial position was outlined and it was brought to Members attention that the Council had had discussions with the Ministry of Housing, Communities and Local Government (MHCLG) about seeking permission for a Capitalisation Directive to help balance the budget in 21/22. the Council required flexibility due to two unique one off funding pressures arising in 21/22 – a 19/20 business rates rebate of £5.3m and the Department of Education seeking that the Council write off the Slough Children's Services Trust historic deficit of approximately £5.5m.

Addressing the Committee under Rule 30, Councillor Strutton raised a number of points relating to governance arrangements of the local authority owned companies and concern that the existing senior management team would not be able to take the council forward in delivering the work required as recommended by the external auditors in their Section 24 statutory recommendations. Financial issues identified, which may have been exacerbated by Covid-19, existed prior to the pandemic. Clarification was also sought on when Grant Thornton, the Council's external auditors, informed the Council of their final findings and subsequently when senior management were informed.

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The Associate Director Finance explained that in order to improve the quality of the Council's financial services a series of actions had been instigated which would underpin robust financial management of the Council and enhance its assessment of its going concern status. Work including securing a highly skilled core team of financial experts in various key aspects of Council finances and developing a training programme for the finance team to ensure they were adequately skilled to produce high quality accounts and financial management information. A re-focussed Strategic Finance Board had begun receiving and agreeing financial standards papers with a particular focus on ensuring that the Council's 21/22 budget will balance and its 22/23 targeted savings identified. Final audit reports were received on 9th and 10th May 2021 and issued later on 10th May.

Councillor Smith, speaking under Rule 30, stated that he had queried whether the £5m savings identified for Phase 2 of the Transformation Programme were achievable and that one of the primary reasons that the Council's current levels of reserves only amounted to £0.5m was due to the Council using its own funds for investments in property, plant and equipment and investment property. In response, the Associate Director Finance informed Members that a budget savings exercise was currently being looked at and clarified that accounting errors in the 18/19 accounts had contributed to the reduction in reserve levels and not as a result of purchases made.

Committee Members made a number of comments in the ensuing discussion including;

- Concern that the Council found itself in its current position and that the Council's internal financial processes had significantly failed.
- Disappointment that the Committee had, over the years requested information, which had not been provided and that there needed to be a fundamental culture change.
- What the financial costs were of implementing the changes required to establish good financial governance were. Two sums of £350k had been allocated in the existing budget to be used towards financial excellence. Investing to produce good quality working papers meant that less work was required to be carried out by external audit, thus reducing their fees; but that this would take a number of years to materialise.
- Frustration that following the LGA Peer review in 2019 the recommendation that the Council have a full time Monitoring Officer (MO) was still not in place. The Council's governance arrangements

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were being reviewed and Members were informed that interviews for the MO role were due to take place soon.

- Accountability of individuals involved which had led to the current financial position the Council was in. It was noted that the S151 Officer had resigned from post and that the Council would be considering a report at its meeting on 20th May 2021 to appoint Steve Mair as the Council's S151 Officer.

The Committee agreed that the Going Concern Statement be a basis for preparing the 18/19 Statement of Accounts.

Resolved - That the assessment made of the Council's status as a "going concern" as a basis for preparing its 2018/19 Statement of Accounts be approved.

48. 2018/19 Accounts - Planned improvements in the Council's accounts, financial services, reserves and group entities

The Committee received a report from the Associate Director of Finance that updated on the completion of the 2018/19 accounts and set out how the Council would be addressing the current issues in its accounts processes and financial services.

The Associate Director summarised the key aspects of the 2018/19 accounts and particularly the current issues and areas identified for improvement. The context was that the Council had received two highly critical external audit reports with extensive criticism of the accounts which included seventeen recommendations and four statutory recommendations, which the Council would respond to at its meeting on 20th May 2021.

Amongst the key issues in the 2018/19 accounts was the significant deterioration in the level of usable reserves. This would have a direct impact on the current year's financial situation with spending controls and a focus on achieving planned savings, and in future budget setting processes. Both revenue and capital budgets were being reviewed in detail with service areas and whilst there were some areas where action could be taken quickly the overall improvement programme would take time with quarterly updates to the Committee from October.

It was recognised that the process for completing the 2018/19 accounts had been difficult and their approval was significantly later than set out in statutory deadlines. Part of the financial improvement plan for the Council was for accounts to be produced to a higher standard than had historically the case. It was therefore not yet possible to confirm the date for the 2019/20 accounts until the detailed plan to produce them was further advanced.

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The Committee had previously agreed to invite the Leader of Council, who now had lead responsibility for financial strategy, to answer questions from Members. Speaking under Rule 30, Councillor Strutton raised a number of issues including his longstanding concerns about the “capability and capacity” of some departments and financial management; the oversight of accounts of some of the Council’s subsidiary companies. The Leader of the Council responded to the issues raised. He highlighted the LGA framework for the respective roles and responsibilities of Members and Officers which stated that the key role of councillors was to set high level strategy and be accountable to the public whilst Officers should be responsible for the professional management of the Council’s finances, operational delivery, practices and processes. The Leader also responded that poor financial practice had not been defended in the past. Following concerns raised by the Chair of the Committee about the delays in signing off the accounts the Leader had instigated a weekly meeting with the Section 151 Officer, auditors and Chair to try to resolve the issues. It became clear there hadn’t been sufficient financial expertise in the Council to address the issues and the Section 151 Officer had since left the Council and additional resources had been brought in to implement substantial improvement. He emphasised that the Council leadership had accepted the auditors findings in full and was committed to taking the necessary action to address the deficiencies and weaknesses.

Members of the Committee asked questions about several other aspects of the report including how the weaknesses in the finance department had not been identified and addressed at a much earlier stage and what plans were in place to strengthen the finance team in the medium term. The Associate Director confirmed this was an important aspect of the plans for improvement and he confirmed that that quarterly reports to the Committee would include updates on the steps to put in place both the short term skills and expertise to address the current challenges and the structure and upskilling to ensure a suitably skilled and resourced finance team was developed for the long term. Other issues raised and discussed with the Leader, Chief Executive and Associate Director included the Council’s contract management function; the approach to asset disposals required as part of the capitalisation directive; and the performance management processes for staff.

At the conclusion of the discussion the recommendations were agreed.

Resolved –

- (a) That the accounts for 2018/19 be agreed.
- (b) That the Council’s planned response to address the issues in its current approach to the preparation of its accounts, reserves and group entities be agreed.
- (c) That the Council’s planned response to improve its financial services be agreed.

49. Grant Thornton Audit Findings

The Committee received a report detailing the audit findings of the Council's external auditors, Grant Thornton. The Council had had difficulties in producing supporting information for a number of areas in the financial statements which had resulted in the 2018/19 audit incurring a significant delay and additional audit resource to conclude. The Council had relied on the use of the CIPFA Big Red Button which had resulted in issues understanding the audit trail. Recommendations had been made in four key areas - finance capacity and skills; preparation of the financial statements; levels of useable reserves and financial governance, monitoring and controls relating to Group entities as set out in the report.

A Member asked what the impact of the recommendations was likely to have on the preparation and approval of the 19/20 financial statements. The Associate Director, Finance explained that the CIPFA Big Red Button was no longer going to be used as a tool and that quality assurance of paperwork submitted for audits was a key priority.

Responding to why the Council was not aware of the financial position of the Children's Trust, it was explained that although relevant Cabinet Members were being briefed on the situation there was no formal reporting mechanism. One of the recommendations related to a review of the governance and reporting arrangements for Slough Children First Ltd, established in April 2021, to ensure Members were provided with a proper oversight of matters.

Councillor Strutton raised a number of points including the capability of asset management team and it was noted that there were no specific concerns regarding the team but external audit were reliant on the quality of the data provided by the Council.

Councillor Swindlehurst placed on record his thanks to the external auditors for identifying the issues as discussed and presenting clear recommendations and action plans as to how matters identified would be addressed.

The Chair thanked Councillor Swindlehurst for attending the meeting.

Resolved - That details of the report be noted.

50. Letter of Representation

Members were informed that it was a requirement for all councils to provide a Letter of Representation to External Auditors and the Committee noted details of the letter as set out in the agenda.

Resolved – That details of the Letter of Representation be noted.

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51. Grant Thornton Section 24 Statutory Recommendations

Julie Masci and Paul Dossett, representing Grant Thornton, the Council's External Auditors, set out the reasons why statutory recommendations had been issued under Section 24 of the Local Audit and Accountability Act 2014. Inadequate arrangements and insufficient skills and capacity at the Council to prepare reliable financial statements and supporting working papers had led to the statutory recommendations being issued. A number of internal control deficiencies, as outlined in the report, meant that there were significant weaknesses and material misstatements in the preparation of the Council's financial statements which had reoccurred over a number of years.

Details of the statutory recommendations were highlighted as set out in the report and Members informed that these had been accepted by senior management at the Council. The recommendations were due to be considered by full Council and at its meeting scheduled for 20th May 2021.

Lead Member for Governance and Customer Services stated that an audit exercise of the audit needed to be carried out to realise lessons learnt and avoid a repetition of the same issues occurring in future. Furthermore, improved training for members of the Committee was essential to equip them with the skills necessary to ensure effective scrutiny. Speaking under Rule 30, Councillor Smith asked whether there were penalties for late audits and what the final audit fee for the 18/19 accounts was. It was estimated that the final audit fee would be circa £450k and that there were no specific fines given for audits being completed outside of the prescribed timeframe.

Responding to queries raised by Councillor Strutton, in relation to the scale of poor governance and financial reporting with regard to the Council's group entities and specifically James Elliman Homes, it was explained that although an audit of James Elliman Homes had commenced this was never concluded. However, external auditors were satisfied that this was not a material concern for the purposes of the 18/19 accounts.

Resolved – That details of the Section 24 Statutory recommendations be noted.

52. Vote of Thanks

The Chair placed on record a vote of thanks to Alan Sunderland who had served as an Independent Co-Opted Member of the Committee for a number of years and wished him well for the future.

53. Date of Next Meeting - 29th July 2021

The date of the next meeting was confirmed as 29th July 2021.

Chair

(Note: The Meeting opened at 6.40pm and closed at 10.04pm)