

Slough Borough Council

Section 24 Statutory recommendations

9 May 2021



Slough Borough Council
Observatory House
25 Windsor Road
Slough
SL1 2EL

9 May 2021

Dear Sirs

[Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014](#)

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements and insufficient skills and capacity at the Council to prepare reliable financial statements and supporting working papers. In addition, we identify concerns regarding the Council's financial sustainability and levels of reserves and weaknesses in the Council's financial governance, monitoring and controls in relation to its Group entities. Further details are set out in the attached report.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:

The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council.

At that public meeting the Council must decide

- whether the recommendations are to be accepted, and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies the meeting publication requirements that the Council must comply with.

[Julie Masci](#)

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Background to the recommendations

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements and insufficient skills and capacity at the Council to prepare reliable financial statements and supporting working papers. In addition, we identify concerns regarding the Council's financial sustainability and levels of reserves and weaknesses in the Council's financial governance, monitoring and controls in relation to its Group entities.

Preparation of the financial statements

Recruitment and retention of skilled and qualified finance staff in the locality has been an ongoing and longstanding issue for the Council with a number of interim appointments used in key finance roles during the course of the 2018-19 audit process. The Council has bought in skills and experience from professional advisors, but recognises this is not an ideal substitute for an internal fully staffed and skilled finance team which will be developed over the longer term.

The Council has had difficulties producing supporting information for a number of areas in the financial statements resulting the 2018-19 audit incurring a significant level of delay and additional audit resource to conclude. The Council has relied on the use of the CIPFA Big Red Button which has resulted in issues understanding the audit trail between the ledger and Trial Balance and how these reconcile to the Council's financial statements.

Our 2018-19 audit work has identified a number of in year and prior period adjustments particularly in the area of PPE valuations and accounting for additions and disposals of assets. The valuation errors have resulted in the Council commissioning external experts to produce a new valuation for the opening balances as at 1 April 2018, as well as the closing position at 31 March 2019. In addition, during the course of the audit, the Council identified a substantial over accrual of anticipated profits from its interests in Slough Urban Renewal, highlighting poor controls over the routine review of balances held within the Council's balance sheet and lack of quality assurance arrangements.

Our audit has identified a number of internal control deficiencies including:

- Poor quality and incomplete financial statements presented for audit in July 2019
- Poor quality of working papers supporting the financial statements
- Lack of audit trail to explain how aspects of the financial statements are supported by the Council's financial system and underlying supporting documentation
- Lack of critical review of the draft financial statements and supporting audit working papers prior to audit
- Inadequacy of routine reconciliation and review of debtors, creditors and other balance sheet line items
- Lack of clarity around bank reconciliations, particularly in relation to School bank accounts
- Inadequate maintenance of the fixed asset register, with examples identified where prior year transactions had not been correctly removed from the asset register or material transactions had been incorrectly accounted for during the year.
- Poor governance, oversight and financial reporting in relation to the Council's group accounts and group relationships

In conclusion, there remains significant weaknesses and material misstatements in the preparation of the Council's financial statements which have reoccurred over a number of years. There remains a significant need for improvement in key financial controls and processes and the quality of the underlying working papers to ensure that the financial statements are prepared to an appropriate quality, in line with CIPFA Code accounting requirements and free from material error.

Our statutory recommendations in relation to these matters are set out on page 6 of this report.

Background to the recommendations

Levels of Useable reserves

Levels of general fund reserves at the Council have remained stable over a number of years however the level of earmarked reserves has continued to decline with earmarked reserves reducing from £30.9m in 2012-13 to £4.780m in 2018-19, placing it as one of the lowest levels of all local authorities nationally. There is no evidence that the Council has properly understood the risks involved in running down reserves which are ultimately largely earmarked to support its revenue position.

In the 2021-22 budget report to Council, forecast reserves were £11.425m at the end of 2020-21. This assumed £8.173m of General Fund Balance and £3.252m of Earmarked Reserves. However due to findings arising from the 2018-19 financial statements audit, a substantial over accrual of anticipated profits from the Council's interests in Slough Urban Renewal has resulted in a further reduction of general fund reserves of £7.573m in the 2018-19 accounts. Thus reducing current forecasted General Fund Reserves down to only £550k.

There remains further risk in these reserve levels subject to the finalisation of the 2018-19 audit, confirmation of the final 2020-21 outturn position and completion of the 2019-20 and 2020-21 financial statements audits.

The Council has identified a significant savings programme of £15.576m for 2021/22., this being a bigger programme than we have seen delivered in recent years by the Council. This coupled with the adjustments required to the Council's reserves arising from the audit, gives indication that general fund reserve levels (both earmarked and unearmarked) are at unsustainably low levels requiring action from the Council.

In addition, in light of the impact of Covid 19 on the future financial position of the Council, coupled with the impact the business rate appeal of £5.3m and the ongoing discussions with Department for Education on the recoverability of financial support to Slough Children's Trust, the Council has recently sought further financial support through MHCLG.

In conclusion, maintaining sound reserves is absolutely vital and a key indicator of sound financial governance. It should be at the heart of the Council's medium-term financial plan. The Council should take urgent action to develop a clear, sustainable financial plan to significantly replenish its levels of useable reserves in order to ensure financial resilience for the future. Low levels of reserves would inhibit the Council's ability to respond to any significant unexpected events or manage its position where its savings programmes are not effectively delivered.

Our statutory recommendation in relation to this matter is set out on page 8 of this report.

Background to the recommendations

Financial governance, monitoring and control for Council Group entities

The Council is one of two members of a limited liability partnership (LLP), trading as Slough Urban Renewal Partnership LLP (SUR LLP). It has a 50% interest in the LLP, the remaining interest being held by the other member, a private sector construction services business.

In addition, in 2017-18, the Council established two wholly owned housing subsidiaries (Herschel Homes Limited and James Elliman Homes Limited), to assist in the provision of affordable homes within the Borough. Herschel Homes Limited remains a dormant company, but operations within both SUR LLP and James Elliman Homes Ltd have continued to grow since its establishment. The Council's interests in both these entities have been consolidated into the group accounts of Slough Borough Council.

Our 2018-19 audit work on the Group accounts has identified a number of findings.

James Elliman Homes does not operate its own financial systems and records to record the company's financial transactions. All company transactions are currently being processed within Slough Borough Council's systems and day to day transactions. Whilst these are recorded on separate account codes, the accuracy and completeness of this is highly dependant on council officers reviewing and identifying the specific invoices and transactions that relate to the company and categorise these appropriately within the financial system. This presents a risk that financial records for the company have not been fully identified and these have been erroneously included in the council's own financial data.

As a commercial entity subject to separate legal, tax and accounting considerations, there should be clear separation of these transactions, in a separate financial ledger, with clear and distinct financial controls and monitoring in place for both the Council and the company.

From our enquiries with officers and review of the records held on Companies House website, we have established that a statutory audit was commenced on the 2017-18 financial statements of James Elliman Homes, however this audit was never finalised with its appointed auditors and the 2017-18 audit and the audit opinion was withdrawn from the accounts published on Companies House. The statutory audit process is a key source of assurance over the company's financial affairs. Council officers have indicated that the audit was not concluded as there was a risk of late filing of accounts with companies house following issues with the audit, however it remains unclear why the 2017-18 audit was not fully completed. New auditors were appointed in 2018-19.

There are two appointed company directors of James Elliman Homes Limited, both of which are also officers of Slough Borough Council and so presents a risk of conflict. It is difficult for the Council to challenge the commercial operations of the company and ensure that this operates in the best interests for the Council when its officers fulfil a dual role and are an integral part of the company's decision making and operations.

In addition, as highlighted earlier in this report, a £7.573 million over accrual of anticipated profits from its interests in Slough Urban Renewal, highlighting poor controls over the routine review of financial interests arising from the Council's group relationships and lack of review and understanding of the full extent of financial risks and rewards to the Council.

In conclusion, these findings highlight significant weaknesses in the Council's financial governance, monitoring and control arrangements in relation to its group entities.

Our statutory recommendation in relation to these matters is set out on page 9 of this report.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Finance capacity and skills	<p>The Council should put in place robust arrangements for the production of the 2019-20 and 2020-21 financial statements and going forward, which meet statutory requirements and international financial reporting standards. In order to achieve this the Council should:</p> <ul style="list-style-type: none"> • ensure sufficient resources and specialist skills are available to support the accounts production • Ensure the finance team has the skills and capacity to enable effective financial management arrangements and support the production of technically sound financial statements, • Ensure finance officers are provided with additional training, to ensure all staff involved in the accounts production process have the necessary technical knowledge of the CIPFA Code • introduce appropriate project management skills to oversee the timely production of the financial statements and supporting working papers 	<p>The Council has already identified the necessary additional core resources and specialist skills it needs to lead the accounts process going forward and to ensure robust financial management. They commence with the Council in May 2021. Part of the work of this core team will be to train the Council's own staff to ensure that they have the necessary skills to carry out their work. Gaps in the Council's own team skills and capacity will be addressed in the short term by the appointment of interim staff to provide additional capacity. Longer term the Council will be reviewing its permanent finance team to ensure the Council has higher quality resources and appropriate capacity. There will be a focus on training and development for all staff, new and currently employed covering professional and technical, project management, business planning, leadership and management development among other matters.</p> <p>The responsible officer for this work is the S151 officer.</p> <p>The necessary additional core resources and specialist skills have been identified and secured and the necessary training and development is being designed. Training and development has already commenced on an individual basis and the programme will roll out across the whole team from June 2021. Additional interim resources will be brought in as and when necessary to provide additional capacity.</p> <p>The review of the permanent finance structure and the core leadership and technical resources will be undertaken in the Autumn of 2021.</p>

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Preparation of the financial statements	<p>The Council should develop a comprehensive project plan for the preparation of the accounts which ensures that:</p> <ul style="list-style-type: none"> the entries in the accounts are supported by good quality working papers which are available at the start of the audit the financial statements and working papers have been subject to robust quality assurance prior to approval by the S151 officer there is clear ownership and accountability for tasks across service areas to support the timely production of the financial statements. 	<p>The Council now has the necessary leadership and technical support, project and programme management skills to produce high quality accounts and will be introducing:</p> <ul style="list-style-type: none"> a comprehensive accounts plan which will be linked to the auditors required by client schedule. This plan will include a comprehensive training plan, a communications plan and a resource plan a three stage quality assurance process will be implemented covering financial standards papers and accounts templates and covering 1) preparation, 2) technical review and 3) sign off review a whole team approach will be instigated through the involvement of the whole finance service to bring greater resilience and resource to this key requirement. improved communication through the project plan which will include regular and early communication to all stakeholders. comprehensive training and development for finance and other staff which will include how to prepare, and also regular reviews of, working papers that include evidence of the transactions in the ledger, an enhanced checklist of requirements, quality assurance review, links between the working papers and clear mapping to the ledger. <p>The responsible officer for this work is the S151 officer.</p> <p>The date for the production of the 2019/20 and beyond accounts cannot be established until the Council has completed a detailed review of all working papers, ledger balances etc that underpin the 2019/20 accounts. This will take upto a year and will be of the highest quality and pace. Thereafter much faster quality closure of accounts will be undertaken.</p>

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Levels of useable reserves	<p>The Council should take urgent action to address its low levels of unearmarked and earmarked revenue reserves through:</p> <ul style="list-style-type: none"> • developing a clear, sustainable medium term financial plan to significantly replenish reserves to a level that enable it to respond to any significant unexpected events or manage its position effectively where its savings programmes are not fully achieved. • Reviewing its medium term savings plans to ensure that clear proposals are developed to achieve savings requirements in line with the revised MTFP and reserves strategy • Ensuring agreed savings are owned across the Council by officers and lead members to ensure clear ownership and accountability for delivery • Ensuring it puts in place a clear and transparent savings monitoring and reporting process, in order to ensure that council departments are held to account for delivery of required savings 	<p>The Council has begun and agreed at officer level, a robust process for continued review of its base budgets including savings proposals, pressures, mitigations, monitoring etc. This will all lead into an improved MTFS that will contain full detailed savings proposals backed up by appropriate plans and working papers. All savings will be allocated to a named department, officer and Member and all will be subject to continuous review by the finance service reporting into the Executive Board, Strategic Finance Board and Members.</p> <p>As a consequence of this work and as part of the budget process a risk analysis will be completed to inform by how much the reserves should be built up over the coming 5 years. This will lead to an increase in the savings target to finance the necessary increase in reserves which will be formalised as noted during the budget process.</p> <p>The responsible officer for this work is the S151 officer.</p> <p>The work will be complete in sufficient time to inform a fully engaged Scrutiny, stakeholder and Lead Members process during 2021-22 for the 2022-23 budget process.</p>

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
<p>Financial governance. Monitoring and controls relating to Group entities</p>	<p>The Council should review and implement effective financial governance and monitoring arrangements for its group relationships to mitigate exposure to additional financial risk.</p> <ul style="list-style-type: none"> • As a commercial entity subject to separate legal, tax and accounting considerations, there should be clear separation financial transactions of Slough Council and James Elliman Homes, in a separate financial ledger, with clear and distinct financial controls and monitoring in place for both the Council and the company. • The Council should review its overall approach to using council officers on the boards of its group companies and other similar organisations. This should be informed by a full understanding of the role of and legal requirements for company board members. • When allocating roles on Council-owned organisations to individual officers, the Council should ensure that the scope for conflicts of interest is minimised, with a clear divide between those in such roles and those responsible for holding them to account or overseeing them. • The Council should ensure it is actively and routinely monitoring the financial performance of its group entities to consider and protect any unintended financial exposure on the Council's financial position 	<p>The Council has begun reviews of its management of third party organisations and will be implementing a series of changes which will include among other matters appointing appropriate Senior Responsible Officers to ensure that companies meet their objectives, put in place new arrangements for holding companies to account, reviewing how the companies meet the Council's objectives, a review of the work undertaken by the companies, developing a clear approach to testing value for money etc. This will include a clear separation of all financial transactions, a review of Council officers on all boards, a review of all financial performance information and actions for all boards and identification of any risks the Council is facing.</p> <p>The responsible officer for this work is the S151 officer.</p> <p>The work will be completed during 2021-22.</p>



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