

## **Audit and Corporate Governance Committee – Extraordinary Meeting held on Wednesday, 22nd February, 2023.**

**Present:-** Councillors Kelly (Chair), Brooker (Vice-Chair), Ali, Carter, Grewal and Gill

Naira Bukhari – Co-Opted Member

**Also present under Rule 30:-** Councillors Gahir, Hulme, Smith, Strutton and Swindlehurst

**Apologies for Absence:-** Councillor J. Davis

### **PART 1**

#### **41. Declarations of Interest**

None were received.

#### **42. Accounts and Audit Update 2018/19**

The Director of Finance presented a report on the audited Statement of Accounts for 2018-19 (subject to the issue of the audit opinion) and an update on the preparation of the Council's 2019/20, 2020/21 and 2021/22 accounts.

There had been a significant deterioration in the number of audits being completed within the prescribed deadlines and the Committee were reminded of the timeline regarding the submission of the 18/19 accounts prior to May 2021, noting that between June 2019 and May 2021, five draft versions were submitted to the external auditors. A lack of supporting working papers in many areas that had not been subject to any quality assurance, material errors in the opening balances for property, plant and equipment (PPE) and a material overstatement of income due from one of the Council's companies were some of the issues encountered by external auditors which resulted in the Audit and Corporate Governance Committee in May 2021 receiving two reports which contained extensive criticism of the Council's arrangement for preparing the accounts and related matters which set out seventeen recommendations and four statutory recommendations.

In particular, the statutory recommendations highlighted a number of key internal control deficiencies in the preparation of the five versions of the accounts presented 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;

## Audit and Corporate Governance Committee - 22.02.23

- 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.

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 and outstanding work to support bank reconciliations and debtor and creditor system reconciliations.

A new finance team appointed at the end of May 2021 identified that the 18/19 accounts were still not fit for purpose and the Capitalisation Direction (CD) obtained in March 2022 meant further changes were required. In total, 50 changes were made which affected over 100% of figures in core statements. In addition, 80% of disclosure notes with 22 areas subject to detailed review and correction, 20 changes relating to previous financial years and 7 changes correcting earlier versions of 2018/19 accounts. A further additional change had been made as a result of the Capitalisation Direction.

Inadequate accounting records and controls systems alongside ineffective systems of internal control, risk management and governance resulted in a grossly inaccurate Annual Governance Statement and very challenging budget setting. The new finance team had for the past 18 months been reviewing the financial arrangements at the Council and overseeing the production of a revised set of accounts for 2018/19.

Many fundamental issues were uncovered, as summarised in Appendix C, and finalising the 2018/19 statement of accounts had been extremely challenging. The issues identified were of a quantum and scale rarely seen which had taken considerable time and effort to address. The corrected accounts would provide a sound financial base for the Council going forward.

It was explained that many of the Council's financial issues would have been highlighted earlier if accounts had been produced on time and to the standard required. This was of significance as levels of general fund and HRA balances affected key budget decisions for the next financial year. It was drawn to Members attention that there was a residual risk of issues arising from the previous three years unaudited accounts which adversely affected the estimated general fund and HRA balances.

The different opinions provided on the accounts was explained with approval by the Section 151 Officer and in turn Council was based on the accounts overall. External audit opinion related to a more detailed technical appraisal based on auditing standards and a line by line assessment of the accounting statements.

## **Audit and Corporate Governance Committee - 22.02.23**

Details of process improvements were outlined and whilst these would take time to bed in, the aim was to produce accounts that met CIPFA requirements and were easy to audit with minimal changes required and ensure that the accounts were supported by clear and comprehensive working papers.

It was emphasized that the key focus going forward was to maintain the momentum on the work and improvements that had been implemented to manage the audit process in order that accounts could be signed off as quickly as possible.

The timetable on progress on accounts preparation for 2019/20 to 2022/23 was set out, noting that the accounts were still subject to quality assurance, amendments arising from the 2018/19 accounts audit and a new finance team being in place.

Julie Masci, from Grant Thornton the Council's external auditors, addressed the Committee, reiterating that the scale and size of issues identified on the 2018/19 accounts meant that the audit report opinion would be a Disclaimer of Opinion. It was stressed that this audit opinion was unprecedented and never before issued to any local authority but reflected the standard of record keeping and accounting at the Council at that period in time. Progress made by the current finance team was welcomed. Implementation of recommendations meant that long term improvements could be achieved and ensure that the Council exercised proper stewardship over public funds.

In the ensuing discussion a number of Members stated that they recognised the severity of a Disclaimer of Opinion being given and accepted collective responsibility for the financial position the Council was at. The Committee placed on record their appreciation to the Director of Finance and the finance team in identifying matters and getting the 2018/19 accounts presented to Committee. The accounts would provide a baseline to enable the accounts from 2019/20 onwards to be concluded.

A Member asked about the role of the Committee and was informed that challenge and scrutiny, both of senior management and external auditors was critical in maintaining the focus on council operations being carried out effectively. The role of experienced members serving on the committee and importance of ongoing continuous training was also discussed.

It was queried why issues identified had not been picked up on by external auditors earlier in the process. Ms Masci explained that in July 2019, when the Council produced its first draft statement of accounts, a number of significant matters were identified and management at that time focused on pushing to get the audit completed rather than providing appropriate audit evidence. A number of subsequent meetings were held but it was difficult to obtain supporting evidence or explanations to transactions posted in 2018/19 and prior periods.

In response to whether a Disclaimer of Opinion would also be given for the 2019/20 and 2020/21 accounts it was stated that it was likely the same

opinion would be given. Progress was being made as a result of the changes implemented by the new finance team more widely by the council but given the scale of the matters identified it would take time for these to embed.

The Chair made a number of observations including the need for accountability from the Executive leadership at the Council and specifically the Lead Member responsible for financial matters. It was critical that lessons were learnt and bespoke training provided for members who were part of the administration in charge at the Council. Responding to what the total cost for the 18/19 audit was, it was noted that the current total audit fee up to end of December 2022 was £695,195. Members were informed that although the Council was on the right trajectory to return to a sustainable financial position, there should not be an underestimation of the challenges that remained.

Speaking under Rule 30, Councillors Smith and Strutton made a number of comments and asked questions. Given the unique position the Council was in and the fact that no other local authority had been issued a Disclaimer of Opinion, it was questioned whether the Council was fit for purpose. Whilst acknowledging that this was unprecedented, it was noted that measures taken in the last two years - including appointment of an experienced finance team - meant that the Council was moving in the right direction and it was key that the momentum for the journey to financial recovery was maintained.

The Finance Commissioner stated that early identification of issues was key in enabling measures to be taken to address them before they became much bigger issues. In response to what recourse was available to the Committee to report on any serious concerns it had or uncovered, the Lead Commissioner explained that such matters could be reported to full Council.

At the conclusion of the discussion, the Committee agreed that the 2018/19 accounts be recommended to Council.

**Resolved -**

1. Recommended to full Council to:
  - (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 Leader, 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.
2. 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.

**43. Update on Objection to 2018/19 Accounts and Issuing of Statutory Recommendations- Purchase of Observatory House**

The Director of Finance introduced the report which set out details the findings of Grant Thornton, the Council's External Auditors, in response to an objection received from a member of the public in relation to the 2018/19 Accounts with regard to the purchase of Observatory House.

The objection related to the Council's acquisition, in July 2018, of a new headquarters building, Observatory House, which was purchased for £41m. The Objector had requested that Grant Thornton issue a report in the public interest and to apply to the court that there was an unlawful item of account. Following consideration of the grounds for the objection and information provided by the Council in response, Grant Thornton decided not to uphold the objection and therefore not issue a report in the public interest or apply to the court for a declaration of an unlawful item of account.

Whilst reviewing the matter, Grant Thornton concluded however that there were concerns relating to the manner in which the decision to acquire the property was taken, and in particular the limited information made available to Members at the meeting of the Cabinet on 28 May 2018 at which the decision was taken. It was concluded that this represented a significant failing in governance given the size of the transaction to which it related.

Recommendations made by Grant Thornton were outlined, as set out in the report, reminding the Council to ensure that major decisions were supported by sufficient information and that the role of informal groups, such as the Lead Members and Directors group, did not diminish the need for detailed consideration and documentation within the formal governance arrangements. The Council had put in place a number of measures to address the weaknesses identified which included constitutional changes to tighten up the Council's governance processes.

Julie Masci, the Council's external audit lead from Grant Thornton stated that issuing of statutory written recommendations was considered a proportionate response to the matters identified.

In the ensuing discussion, it was commented that any challenge and or scrutiny of the accounts was welcomed and that it was proper that the Council be held accountable for decisions it had made and agreed with the recommendations made and management response as set out in the report.

A Member stated that decisions were based on information provided to them at any given time but recognised the need to continue to maintain, embed and build upon the improvements that had been implemented.

In response to whether a potential link between the vendor and members had been looked at or would be in the future, the Committee was informed that Grant Thornton had concluded their work and issued statutory

## **Audit and Corporate Governance Committee - 22.02.23**

recommendations. The Chair stated that a lack of information in the decision making process had real consequences for the residents of the town.

Councillors Smith and Strutton asked a number of questions, which included why no business case was provided and that more than one independent valuation should have been obtained prior to making such a significant purchase. It was submitted that this was the largest asset purchase made by the Council and that little or attempt had been made to check the value for money of the acquisition. The Director of Finance stated that the Council took seriously the issues raised in the statutory recommendations as demonstrated by the management response to the matters identified.

The Committee noted the statutory recommendations and the Council's proposed response and agreed that the report be referred to Council for consideration.

**Resolved** – That the statutory recommendations and the Council's proposed response be noted and

1. Recommended to Council:
  - (a) Consider and note the statutory recommendations at its meeting on 9 March 2023.
  - (b) Accept the recommendations and the management response.
  - (c) Accept the lessons learnt and proposed action as set out in the report.
2. Recommended to Standards Committee that the recommendations and action in relation to member development should be taken into account when approving a member development programme for delivery following the 2023 elections.
3. Recommended to Cabinet that the actions in relation to Cabinet reports and business cases should be adopted.

### **44. Date of Next Meeting - 14th March 2023**

The date of the next meeting was noted as 14<sup>th</sup> March 2023.

Chair

(Note: The Meeting opened at 6.30 pm and closed at 8.42 pm)