

Slough Borough Council

Information needed	Details
Report To:	Audit and Corporate Governance Committee
Date:	10 th July 2024
Subject:	Backlog Statement of Accounts 2019/20 to 2022/23 and Balance Sheet Review Update Report
Chief Officer:	Annabel Scholes – Executive Director of Finance and Commercial
Contact Officer:	Chris Holme – Finance Director – Corporate and Strategic
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 1 – Updated timelines for completion of the 2019/20 to 2022/23 backlog accounts process Appendix 2 – Exceptional Financial Support – 27 th February letter from the Minister for Local Government to the Leader Appendix 3 –Balance Sheet Review Report

1. Summary and Recommendations

- 1.1 In March this year we reported to this Committee on the draft Accounts and Audit (Amendment) Regulations 2024, published in February 2024 which will amend the Accounts and Audit Regulations 2015, and set out a timetable and statutory deadline for audit of outstanding local authority Statements of Accounts to 2022/23. It was anticipated that the draft regulations would have been enacted before the election, but that did not happen. However, we are required to progress the production and publication for statutory public inspection the draft Statements of Accounts for 2019/20, 2020/21, 2021/22 and 2022/23 for them to be audited by the 30th September 2024, on the assumption the regulations will be enacted by the incoming Government.
- 1.2 The March report provided a timeline for preparation and publication of draft accounts, the public inspection periods and indicative external audit arrangements, in order to comply with the backstop date of 30th September for publication of those audited accounts. For the Council that has meant the preparation and publication of audited accounts for the periods 2019/20 to 2022/23, four separate statements within the 6 months period from 1st April. This report provides an update on that process and revisions to the timetable as we have identified a number of legacy issues with regard to lack of historic reconciliations, inadequacy of accounts postings and evidential record keeping and difficulties in identifying and retaining appropriate resources to deliver accounts that members can be assured reflect a true and fair view of the financial position of the Council for the period in question. This is continuing to be a particularly challenging process, but officers are fully committed to finalising all of the backlog accounts by the assumed statutory deadlines.
- 1.3 Grant Thornton, the Council's external auditor, will report separately to this Committee on the audit process.

- 1.4 In parallel with the above process, officers in conjunction with EY have been conducting a historic Balance Sheet review to identify any further legacy financial issues and risks, not previously reported, that could adversely impact on the Council's current and future financial position. A report is required for presentation to Department of Levelling Up, Housing and Communities (DLUHC) officials by the end of June, and at the time of writing this report, that piece of work was being concluded. Initial findings are outlined in this report and where appropriate prior years accounts have been and are being amended to reflect the issues identified. A full report will be presented to Cabinet at its September meeting.

Recommendations:

Audit and Corporate Governance Committee is recommended to:

- a) *Note, and comment on as appropriate, the progress and current position regarding finalisation of backlog Statements of Accounts 2019/20 to 2022/23*
- b) *Note, and consider the revised timetable for completion of backlog Statements of Accounts as set out in Appendix 1 to this report*
- c) *Note, and consider the findings draft Balance Sheet Review as set out in Appendix 3 to this report, and its implications on the Council's ongoing financial position.*

Commissioner Review

The Commissioners welcome this report.

The risk factors intrinsic to the Council's operations and non-prepared or unaudited Statement of Accounts, eventually reflect on the balance sheet, indicating the particular importance of this review. Looking across assets, liabilities and financial risks over multiple years, bridging the gaps, reconstructing, correcting, and re-presenting significant volumes of data, has required internal and external collaboration, specialist skills, and the unique contribution of many officers. This should be considered a collective achievement, and officers should be commended.

The review once fully completed will aid robust and methodical planning and help the Council to respond in a considered manner as it forecast its medium to long term financial position, known pressures and major issues affecting the Council's finances, including external influences as well as local priorities and factors.

Commissioners note the findings to date (subject to external audits), residual work to conclude the review and produce the remaining accounts. These and the further recommendations outlined in the appendices, which will require ongoing resource and support from all members.

2. Report

Introductory Paragraph

- 2.1 The Secretary of State issued draft Accounts and Audit (Amendment) Regulations 2024 in February, setting out the requirements for publication of backlog statements of accounts. Pending the draft regulations coming into force, as discussed at the 18th March Committee, officers are working to a challenging timetable to prepare, publish for public inspection and have audited four separate Statements of Accounts (2019/20 to 2022/23) by the 30th September

2024, with a further requirement that audited 2023/24 accounts be completed by 31st May 2025.

- 2.2 As the first milestone in achieving this challenging timeline, the draft 2019/20 Statement of Accounts have now been published, as of the 9th May, having been signed off by the then interim Chief Financial Officer on the 6th May.

Options Considered

Once enacted, the Accounts and Audit Regulations 2015 will be amended to set out a new statutory timetable for closure of the backlog Statements of Accounts. It was anticipated that the draft regulations would have been enacted before the election, but that did not happen. However, we must still act on the basis that they will be. The timescales remain challenging for the Council due to the number of outstanding accounts it has been required to produce, dating back to 2019/20. The draft amended regulations state that for the financial years 2015/16 to 2022/23, the deadline to publish accounts and statements is 30th September 2024. This requires the published statement of accounts to be approved by the Council in accordance with the regulations, having been published in draft form for statutory public inspection, and include a certificate or opinion from the external auditor.

The Council must take all necessary steps to close off its previous years' statement of accounts and put in place systems to ensure that it can close accounts in a more timely manner in the future. For this reason, no other options have been considered.

The Balance Sheet Review is a requirement from DLUHC, as set out in its letter to the Council of the 27th February 2024, which was in response to the Council's request for exceptional support for 2024/25, following recommendation from the Commissioners and commissioned by the Council - to provide assurance that the Council is continuing to take all necessary steps towards improvement. As part of that assurance, the Council is required to provide evidence of:

- conclusion of its balance sheet review by the end of June 2024 and building a comprehensive knowledge of contingent risk to effectively estimate the impact of exposures and financial stability;
- progress in delivery of its asset disposal strategy and achieving the net targets as the primary financing mechanism for the capitalisation direction;
- progress in ensuring adequacy in its level of reserves by the end of September 2024 to ensure services are sustainable and it is resilient to shocks.

This has been undertaken in parallel with the backlog accounts process and in conjunction with EY.

3. Background

- 3.1 The Secretary of State, as of February 2024, issued draft Accounts and Audit (Amendment) Regulations 2024, following consultation with the sector and other stakeholders, which sets out the requirements for publication of statement of accounts, annual governance statement and narrative statement for local authorities - financial years 2015-2027. As things currently stand all local authorities are assumed to be duty bound to comply with the regulations, which provide a way forward to deal with the national backlog of local authority accounts. All Statements of Accounts up to and including 2022/23, must be completed and audited by 30th September 2024.

- 3.2 Timely and high-quality financial reporting and audit of local authorities is vital. Not only does it support good decision making by those authorities, by enabling them to plan effectively, make informed decisions and manage their services - it ensures transparency and accountability to local taxpayers. Whilst the majority of local authorities have experienced significant backlogs in the publication of audited accounts, as reported at previous meetings the position in Slough has been compounded by a legacy of inadequate record keeping and lack of progress in historic accounts preparation.
- 3.3 The Council's final Statement of Accounts for 2018/19 were signed off by the former Executive Director of Finance and Commercial in her capacity as S151 Officer before she left the organisation, but they have yet to receive a formal audit opinion. As the Committee has been previously advised, it will be a disclaimed audit opinion.

4. Backlog Accounts – Current Position

- 4.1 The 2019/20 draft accounts were presented to this Committee at its meeting of the 25th May 2024, having been published for statutory 30 day public inspection on 9th May 2024. The 30 day public inspection period ended on the 20th June and there were no requests from residents or local stakeholders to inspect any part of the accounts. We are not aware of any questions to the external auditor from any local electors relating to the accounts. As the statutory public inspection period has concluded, they are now available for audit by Grant Thornton.
- 4.2 Audit and Corporate Governance Committee were also presented with the provisional draft 2020/21 Statement of Accounts at its meeting of the 25th May. Subsequent to that meeting a number of minor amendments have been made (in line with the schedule appended to that report), and at the time of writing this report it was anticipated they will be finalised for publication and public inspection in the week commencing 24th June 2024, that means the 30-day publication inspection period will conclude in the week commencing 5th August 2024.
- 4.3 At the 20th March Audit and Corporate Governance Committee meeting we anticipated a timeline for production, publication and audit of the four Statements of Accounts as set out in Table 1 below. That has proven to be too difficult to achieve, given the inadequacy of historic record keeping and audit trails, and we must now reset the timetable and resource requirements. Indeed, the legacy of inadequate record keeping and lack of progress in historic accounts preparation has been far more profound than assumed at the start of this process and compounded by the need to completely deconstruct and reconstruct historic accounts in key areas such as the Collection Fund.

Table 1 – Outline Timetable for 2019/20 to 2022/23 Final Statements of Accounts (as at March 2024)

Item	Days	Start Date	End Date	1 April	1 May	1 Jun	1 Jul	1 Aug	1 Sep	1 Oct	1 Nov
Scenario 2: Overlapping public inspection periods achieve the backstop date											
19/20 - Notice of inspection	1	4/26/2024									
19/20 - Inspection Period	30	4/29/2024	6/11/2024								
19/20 - End of inspection	1	6/12/2024									
19/20 - Audit period	45	4/29/2024	7/2/2024								
20/21 - Notice of inspection	1	5/10/2024									
20/21 - Inspection Period	30	5/13/2024	6/24/2024								
20/21 - End of inspection	1	6/25/2024									
20/21 - Audit period	45	5/13/2024	7/15/2024								
21/22 - Notice of inspection	1	7/2/2024									
21/22 - Inspection Period	30	7/3/2024	8/13/2024								
21/22 - End of inspection	1	8/14/2024									
21/22 - Audit period	45	7/3/2024	9/4/2024								
22/23 - Notice of inspection	1	7/26/2024									
22/23 - Inspection Period	30	7/29/2024	9/9/2024								
22/23 - End of inspection	1	9/10/2024									
22/23 - Audit period	45	7/29/2024	9/30/2024								

- 4.4 Due to the difficulties encountered, highlighted above, with regards to adequacy of historic record keeping, reconciliations and postings, we now anticipate the 2021/22 draft Statement of Accounts will be available for publication by the 29th July 2024, with the 30-day statutory public inspection period ending 9th September. This means publication 18 working days behind our original planned assumption, as set out in Table 1 above, and we are now operating on a critical path deadline with very little scope for any further slippage in delivery.
- 4.5 For 2022/23 we are aiming for the draft Statement of Accounts to be ready for publication and public inspection by the 2nd August, which means the end of the public inspection period week commencing the 16th September.
- 4.6 Appendix 1 to this report provides an updated timetable for completion. An update on the external audit arrangements for each of these backlog accounts is provided as a separate briefing to this Committee by Grant Thornton.
- 4.7 As soon as we have concluded the 2022/23 Statement of Accounts, officers will commence preparation of the 2023/24 Statement of Accounts. The draft statutory deadline for audited accounts to be published is the 31st May 2025 and it is anticipated that the auditor will place particular emphasis on the integrity of the 2022/23 closing balances/ 2023/24 opening balances as a fundamental part of their audit process. A separate timetable for conclusion of the 2023/24 Statement of Accounts will be presented to the September meeting of this Committee for members to review.

5. Balance Sheet Review

- 5.1 The Council issued a S114 notice in July 2021. This was in part driven by historic inaccurate accounting entries and an elevated level of borrowing, with audited financial statements not being produced beyond financial year 2018/19, thereby causing significant uncertainty over the Council's financial position.
- 5.2 In February 2024 the Minister for Local Government, in response to the Council's request of 12 January 2024 for exceptional financial support for financial for financial year 2024-25, issued a number of conditions, to provide assurance that the Council was getting a grip of its underlying financial position and taking all steps to restore financial sustainability. Although the Secretary of State was minded to approve a capitalisation direction for 2024-25 up to a value of £23.078m, this would be contingent on the Council providing evidence of and reporting back to DLUHC on:

- conclusion of its balance sheet review by the end of June 2024 and building a comprehensive knowledge of contingent risk to effectively estimate the impact of exposures and financial stability;
- progress in delivery of its asset disposal strategy and achieving the net targets as the primary financing mechanism for the capitalisation direction;
- progress in ensuring adequacy in its level of reserves by the end of September 2024 to ensure services are sustainable and it is resilient to shocks.

5.3 The letter is attached as Appendix 2 to this report.

5.4 Because of inadequacy of historic accounting records, the Balance Sheet Review has been, and continues to be, a challenging and resource intensive process, undertaken in conjunction with EY. The review has sought to identify, review and mitigate key areas of risk within the Council's balance sheet, with a focus on the balances as at 31 March 2023 to provide assurance over the opening balances for financial year 2023/24, but in so doing, reviewing balances across financial years 2019/20, 2020/21, 2021/22 and 2022/23.

5.5 The findings and financial implications, as identified to date are set out in Appendix 3 to this report. The revenue impacts of the work to date totals £2.9m, £7.8m, £10.8m, and £6.9m across financial years 2019/20, 2020/21, 2021/22 and 2022/23 respectively. These impacts have already been included in the 23/24 outturn reporting, except for £0.3m of additional revenue impacts identified during June 2024.

5.6 Two areas of the review remain outstanding, being balances associated with the Council's Collection Fund and Dedicated Schools Grant ('DSG'). The complexity and extent of issues within the Council's underlying financial data with regards to these areas means that additional work is having to be undertaken to provide a similar level of improved assurance and quantify any financial impacts.

6.1 **Financial implications**

6.1.1 The financial implications and risks associated with the findings of the Balance Sheet review exercise are outlined in section 5 in the body of the report. The cost of completing the exercise is £136,500 which will need to be funded from the budget smoothing reserve.

6.1.2 Delivery of the detailed programme of works has required the setting up of a dedicated finance project team, made up primarily of officers, for which some limited back-filling is required, with limited external support where specific technical skills are required. The costs are not fully reflected in the 2024/25 budget as approved by Full Council on the 7th March 2024, and a detailed resource plan is being amended to reflect the additional one-off recovery costs. There have also been, and will continue to be additional opportunity costs as preparing the Statements of Accounts, and investigating the evidence base underlying accounting entries requires specific tasks to be undertaken by nominated officers across the Council.

6.1.2 Estimated costs of external audit fees for the years 2019/20 to 2022/23 are factored into the 2024/25 budget.

6.2 *Legal implications*

- 6.2.1 The Accounts and Audit Regulations 2015 set out the requirements for Category 1 authorities. In summary these require a statement of accounts to be prepared in accordance with the Regulations and proper practices in relation to accounts. The statement must include such of the following as are relevant:
- (a) housing revenue account (relevant to this Council)
 - (b) collection fund (relevant to this Council)
 - (c) firefighters' pension fund (not relevant to this Council)
 - (d) any other statements relating to each and every other fund in relation to which the authority is required by any statutory provision to keep a separate account.
- 6.2.2 The statements must include a note setting out matters in relation to employee remuneration and a statement in relation to the Dedicated Schools Grant. As the Council maintains a housing revenue account (HRA) the statement must refer to the reserve for major repairs.
- 6.2.3 The Council must prepare a narrative statement for each financial year, including comment on the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.
- 6.2.4 The Council's chief finance officer (s.151 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 Council at the end of the financial year to which it relates; and
- 6.2.9 In addition to the capacity requirements to close off multiple years of accounts, it should be recognised that the officers undertaking this work, including the new s.151 officer, were not employed during the relevant period. This, together with issues in relation to historic record keeping, makes preparing the accounts challenging, however experienced officers have been brought in to focus on this work and Ernst Young has been commissioned to support with a balance sheet review. In addition, officers have worked closely with the DLUHC Finance Commissioner, who has supported the process.

6.3 *Risk management implications*

- 6.3.1 Compliance with the requirement to prepare, publicise and audit four years accounts within a limited six-month period is fraught with risks and will require the appropriate level of both technical and programme management skills to manage. Failure to achieve the deadlines for completion of audited 2019/20 to 2022/23 accounts by the end of September, and subsequent 2023/24 accounts by May 2025 risk a failure to comply the assumed statutory deadline and could result in penalties or additional interventions.

6.4 *Environmental implications*

- 6.4.1 There are no specific environmental implications of the recommendations.

6.5 *Equality implications*

6.5.1 There are no specific equalities and inclusion implications of the recommendations.

6.6 *Procurement implications*

6.6.1 There are no specific procurement implications arising from the recommendations, however the external support required for completion of the backlog accounts and balance sheet review processes have been commissioned in accordance with both the Public Contracts Regulations and the Council's procurement rules.

6.7 *Workforce implications*

6.7.1 What is progressing and planned to do represents a very intensive programme of works, both to achieve the end of September requirements and the subsequent May 2025 deadline for completion of audited 2023/24 accounts. The backlog audit work programme must be undertaken in conjunction with the normal business activities of the Council. A dedicated project team within Finance and Commercial Services has been set up which will require some limited temporary backfilling and utilisation of external partners and additional interim support, but has also required support from other key areas across the Council with a risk of additional pressures. Where any additional external resources are engaged it is vital that the appropriate level of internal capacity building is included within the contractual arrangement. From a duty of care perspective, it is essential that adequate resources are identified to fulfil essential requirements.

7. Background Papers

None

Appendix 1 – Latest timetable for statement of accounts preparation

Item	Days	Start Date	End Date	06-May	June	July	August	September
19/20 - Notice of inspection	1	08/05/2024	08/05/2024	Green				
19/20 - Inspection Period	30	09/05/2024	20/06/2024	Green	Green			
19/20 - Audit period - GT dependent**	101	09/05/2024	30/09/2024	Purple	Purple	Purple	Purple	Purple
20/21 - Notice of inspection	1	25/06/2024	25/06/2024			Green		
20/21 - Inspection Period	30	26/06/2024	06/08/2024			Green	Green	
20/21 - Audit period - GT dependent**	68	26/06/2024	30/09/2024			Purple	Purple	Purple
21/22 - Notice of inspection	1	26/07/2024	26/07/2024				Green	
21/22 - Inspection Period	30	29/07/2024	09/09/2024				Green	Green
21/22 - Audit period - GT dependent**	40	05/08/2024	30/09/2024				Purple	Purple
22/23 - Notice of inspection	1	09/08/2024	09/08/2024				Orange	
22/23 - Inspection Period	30	12/08/2024	23/09/2024				Orange	Orange
22/23 - Audit period - GT dependent**	35	12/08/2024	30/09/2024				Purple	Purple

- Green represents the planned activities by Slough Borough Council
- Purple represents audit windows for Grant Thornton to review SBC accounts
- Grey represents bank holidays
- Red line represents the audit backstop date