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Dear Councillor O'Kelly

Slough Borough Council - Conclusion of the audit for 2019/20 and 2020/21 – letter to those charged with governance on the application of the local authority backstop

As you will be aware, on 5 September 2024 the government published draft Accounts and Audit (Amendment) Regulations 2024. These Regulations, which were approved on 30 September 2024, set a publication date for financial statements up to and including 2022/23 of 13 December 2024. The new National Audit Office Code, approved on 14 November 2024, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

This summary letter covers 2019/20 and 2020/21 only. At the time of writing, we are not able to report upon 2021/22 and 2022/23, as the Council has not yet published its financial statements for 2021/22 and 2022/23.

As discussed with your Executive Director of Finance and Commercial Services, and for reasons which I set out in more detail below, it will not be possible for us to complete our audits for 2019/20 and 2020/21 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach draft copies of these disclaimers for the attention of the Audit and Corporate Governance Committee for 2019/20 and 2020/21.

We are required under Auditing Standards to report certain matters to the Audit and Corporate Governance Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees is included in the Appendix.

Outcomes of our audit for 2019/20 and 2020/21 – Disclaimer of the opinion on the financial statements

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024, following the approval of the revised Accounts and Audit (Amendment) Regulations 2024 explained at the start of this letter. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We have also been unable to assess whether issues reported in our disclaimer opinion for 2018/19 have been resolved. We therefore plan to issue a

disclaimer of the audit opinion. We have attached the draft wording of our audit reports for 2019/20 and 2020/21 for your information.

The main reason for the application of the backstop is that the completion of the 2018/19 audit was delayed, following a complex and protracted process and pervasive issues identified in relation to the Council's accounting records. The audit commenced in July 2019 with a significant number of matters identified during the audit within the financial statements that were not resolved. In early 2021, the Council financial difficulties escalated resulting in the issue of a Section 114 notice, therefore requiring an application to central government for additional financial support. In June 2021, the Government announced an external assurance review of the Council's financial position and its governance arrangements and following completion of these reviews, appointed Commissioners to oversee several aspects of the Council's operations. Previous finance officers who produced the original 2018/19 financial statements left the Council, with a new finance leadership team appointed who redrafted the 2018/19 financial statements.

We recommenced the audit in July 2022 when a revised set of financial statements were prepared. A disclaimer audit opinion was issued on 8 November 2024 for the 2018/19 audit. The disclaimer related to the use of journals as the Council operated without appropriate journal controls and our testing found limited or no supporting evidence. As a result, we were unable to gain sufficient assurance over the reasons for the journals and whether they were appropriate. In addition, we identified weaknesses in financial accounting and record keeping at the Council. The audit testing and work by new finance officers identified 21 prior period adjustments that reduced the balance sheet by £96 million and £174 million on 31 March 2018 and 31 March 2019 respectively. The number and scale of adjustments identified provided further evidence of the lack of surety that there are further undetected errors within the financial statements.

We discussed and agreed with the Council that the audit of the financial statements for the year ended 31 March 2020 would not commence until the previous audit was concluded. This meant there was no realistic prospect of the audit of Council's financial statements for 2019/20 and 2020/21 or subsequent years being completed in advance of the 13 December 2024 backstop.

I also draw your attention to our letter to the Chief Executive from 26 September 2024, presented to the Audit and Corporate Governance Committee on 31 October 2024 outlining the key issues at that date in relation to the audit process.

Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice - 2019/20

We undertook our Value for Money work for 2019/20 and reported to Audit and Corporate Governance Committee on 22 May 2024. We provided the draft report to the Council for their review in March 2023 but were not able to sufficiently finalise this report until May 2024, due to delays in receiving management responses and significant turnover within the Council's senior leadership team, which caused a significant delay to the presentation of this report to Committee members.

For 2019/20, auditors were required to follow the NAO's 2015 Code of Audit Practice where we are required to provide a conclusion that in all significant respects the Council has (or has not) put in place proper arrangements to secure value for money through economic, efficiency and effective use of its resources for the period.

Our 2019/20 VFM Conclusion opinion is adverse for the Council where we concluded we are not satisfied in all significant respects that arrangements were in place to secure economy, efficiency and effectiveness in its use of resources.

The key reasons for the adverse VFM Conclusion are summarised below in that we found the Council did not:

- have adequate financial plans in place during 2019/20 as they were based upon inaccurate and misleading financial information,
- have adequate levels of reserves to provide financial sustainability,
- follow agreed Council decision-making processes to purchase investment properties both within and outside the boundaries of the Council and did not adequately record the decisions made or assess if those making the decisions had the appropriate skills, capacity and information, and

- have effective governance arrangements in place to manage Slough Children First Limited.

Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice - 2020/21

We undertook our Value for Money work for 2020/21 and reported to Audit and Corporate Governance Committee on 22 May 2024. These findings were presented as part of a combined report covering both the 2019/20 and 2020/21 period. As highlighted within our comments in the 2019/20 VFM Conclusion section above, we experienced delays in finalising our draft report when first issued in March 2023.

For 2020/21, auditors were required to follow the NAO's 2020 Code of Audit Practice. The Code of Audit Practice was revised to greater expand the auditor's obligations in relation to Value for Money.

The new Code introduced a new set of criteria, more extensive reporting and the replacement of qualified and unqualified conclusions. This was replaced with judgements on performance, significant weaknesses in arrangements and key recommendations as the basis for reporting.

The outcome from the Value for Money work during 2020/21 identified:

- one significant weakness in financial sustainability with a key recommendation in relation to the level of Council's reserves,
- three significant weaknesses in governance with three key recommendations in relation to the purchase of investment properties, the governance of Slough Children First Limited and the oversight of Council subsidiaries, and
- one significant weakness in arrangements for improving economy, efficiency and effectiveness with a key recommendation in relation to the lack of benchmarking, reporting of partnership arrangements and no strategic oversight of the externally managed procurement function.

Statutory powers and duties

We are also required to report by exception if we have applied any of our statutory powers or duties.

We wish to highlight the following information for your attention:

- In May 2021, we issued four statutory recommendations to the Council in the following areas:
 - Finance capacity and skills
 - Preparation of financial statements
 - Levels of useable reserves
 - Financial governance, monitoring and controls relating to Group entities
- In July 2021, after the Council issued its Section 114 notice, we issued two more statutory recommendations: asking the Council to:
 - address the Section 114 notice
 - develop a comprehensive project plan for improvement in governance arrangements.
- In February 2023, because of an objection received from a local elector in relation to the Council's accounts for 2018/19, we raised two statutory recommendations in relation to:
 - the information provided to Members to support decision-making
 - the role of informal Lead Members and Directors groups for decision-making.

All statutory recommendations listed above were reported as part of our final 2018-19 audit opinion issued to the Council on 8 November 2024.

Independence

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and

informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

For information, whilst not directly affecting these audits for 2019-20 and 2020-21, we bring to your attention that Julie Masci, the Key Audit Partner, is currently serving her 7th year on this audit engagement as she continues her work with the Council during the 2024-25 financial year, alongside the completion of these backstop audits. It is PSAA's policy that Key Audit Partners at an audited body at which a full Code audit is required should act for an initial period of five years.

Under FRC Ethical Standard 3.15, for a public interest or listed entity, in circumstances where a degree of flexibility over the timing of rotation is necessary to safeguard the quality of the engagement and the firm agrees, the engagement partner may continue in this position for an additional period of up to two years, so that no longer than seven years in total is spent in the position of engagement partner. Slough Borough Council is not a public interest entity, however in accordance with the PSAA's terms of appointment, we have sought and obtained approval from both our ethics team and PSAA for extensions in both years 6 and 7.

We have also mitigated the familiarity threat by appointing a review partner, who will be responsible for reviewing the key judgements of the Key Audit Partner, to ensure that these are not influenced by the familiarity.

Management letter of representation

We have asked management to provide a letter of representation in respect of the financial statements covering 2019/20 and 2020/21. These are enclosed as separate appendices to this agenda item.

Looking ahead

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely



For Grant Thornton UK LLP

CC: Executive Director of Finance and Commercial Services

Attachments: Draft Disclaimer of Opinion 2019/20 and 2020/21

Appendix

Responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Slough Borough Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Corporate Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Corporate Governance Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the authority's business and is risk based.

Audit Plan

Due to delays in the completion of prior year audits, and the impact of the introduction of the backstop publication date, we were unable to issue an audit plan in respect of 2019/20 or 2020/21.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for 2019/20 and 2020/21.

Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed work in respect of the 2019/20 or 2020/21 financial statements audit, there are no issues we need to draw to your attention.

Going Concern

As auditors, we are required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern (ISA (UK) 570).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area for 2019/20 and 2020/21.

Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above as no audit work has been undertaken in 2019/20 and 2020/21.

Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

Matters in relation to the Group audit

In respect of the group engagement, we are required to report on:

- The scope of work on components
- The involvement of group auditors in significant component audits,
- Any concerns over quality of component auditors' work
- Limitations of scope on the group audit, and
- Fraud or suspected fraud

We have no matters to report in this respect as no audit work has been undertaken in 2019/20 and 2020/21.

Audit fees and non-audit fees

PSAA set an initial scale fee for each audit year. Our planning assumption for audit fees, based on the actual audit fees for the prior year resulted in an indicative fee of £327,693 for 2019/20 and £284,693 for 2020/21, which included additional audit work required by the auditor since the audit scale fee had been set. This included additional fees to reflect the increased work required under the Value for Money assessment following introduction of the revised NAO code, increased work required to consider additional VFM risks identified, as well as estimated time required to respond to a number of significant VFM and financial statements findings arising from the 2018-19 audit.

No audit plan was issued for the 2019-20 or 2020-21 financial statements audit, for reasons set out earlier in this letter. An audit planning memorandum was issued in relation to our Value for Money work for 2019-20 and 2020-21, setting out the additional risk areas identified. This was presented to the Council's Audit and Corporate Governance Committee on 28 July 2022.

Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for each audit year. Our current estimates of final fees for each audit year are set out below and is based on estimated costs incurred to date. Final fees will be determined by PSAA and we will update the Council in due course once their final determination is made.

Estimated 2019/20 audit fees which included the VFM assessment, Council and Commissioner liaison, communication and reporting (including issuing the backstop opinion) is £56,350.

Estimated 2020/21 audit fees which included the VFM assessment, Council and Commissioner liaison, communication and reporting (including issuing the backstop opinion is £61,850.

We have also undertaken the following non audit work in respect of 2019/20 and 2020/21 as noted below.

Non-Audit Service	Proposed Fee	Final Fee
<u>2019/20</u>		
Housing Benefit Return certification	£110,000	£110,000
Teachers' Pension Return certification	£5,000	£5,000
CFO Insights subscription	<u>£12,500</u>	<u>£12,500</u>
	<u>£127,500</u>	<u>£127,500</u>
<u>2020/21</u>		
Housing Benefit Return certification	£110,000	£110,000
Teachers' Pension Return certification	£20,000	£12,000
CFO Insights subscription	<u>£12,500</u>	<u>£12,500</u>
	<u>£142,500</u>	<u>£134,500</u>

The audit fees reconcile to the financial statements.

	31 March 2020	31 March 2021
<u>Note 12 to the financial statements</u>		
Audit fees	£328,000	£285,000

*As set above the final audit fees for 2019-20 and 2020-21 will be determined by PSAA in due course and will represent a proportion of the indicative fee given the application of the backstop.

The non-audit fees do not reconcile to the financial statements and we have provided a reconciliation below.

Certification of grants and other services (per note 12)	£140,000	£136,000
Movement in accruals	<u>(£12,500)</u>	<u>(£1,500)</u>
Total non-audit fees per above	<u>£127,500</u>	<u>£134,500</u>

We have considered whether our grant claim work, the fee for which is expected to be higher than the audit fee for this backstopped year, represents a threat to independence. We are satisfied that it is not a threat, on the basis that grant claim work is carried out under instructions set by government, is undertaken on a routine basis each year, and has been assessed by the NAO in AGN 01 as not counting against the non-audit cap.

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit, and relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.