

# **TONBRIDGE & MALLING BOROUGH COUNCIL**

## **AUDIT COMMITTEE**

**29 July 2019**

### **Report of the Director of Finance and Transformation**

**Part 1- Public**

**Delegated**

#### **1     STATEMENT OF ACCOUNTS 2018/19 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE ACCOUNTS**

**This report presents an audited set of Accounts for 2018/19 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, together with the external auditors report on the outcome of the audit of the Accounts. Members are invited to endorse and approve both the Statement of Accounts and Audit Findings Report. The external auditors report is to be approved prior to the Engagement Lead signing off the Accounts. The Engagement Lead and or their representative will be at the meeting to present the report and to answer questions.**

##### **1.1    Introduction**

1.1.1 An audited set of Accounts for 2018/19 must be approved by the Council or a Committee of the Council by 31 July 2019. Approval of the Statement of Accounts is delegated to this Committee. The Accounts include the adjustments in light of the outturn position set out in the Revenue and Capital Outturn 2018/19 report to Cabinet on 5 June 2019.

##### **1.2    Statement of Accounts**

1.2.1 The Accounts are to be prepared in accordance with International Financial Reporting Standards. The Code of Practice on Local Authority Accounting in the United Kingdom is issued by the Chartered Institute of Public Finance and Accountancy and is reviewed and as appropriate updated at least annually. There have been no material changes to the presentation of the Accounts for 2018/19.

1.2.2 An audited set of Accounts for 2018/19 is enclosed with this agenda. It consists of the following individual financial statements and associated notes.

- 1)    Comprehensive Income and Expenditure Statement – this Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be

funded from taxation. The taxation position is shown in the Movement in Reserves Statement.

- 2) Movement in Reserves Statement – this Statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (those that can be applied to fund expenditure and or reduce local taxation) and other reserves (those that the Council is not able to use to provide services, for example, the revaluation reserve).
  - 3) Balance Sheet – sets out the financial position of the Council at 31 March 2019. It shows the value of the Council’s assets and liabilities, and its balances and reserves.
  - 4) Cash Flow Statement – this summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes.
  - 5) Notes to the financial statements.
  - 6) Collection Fund and Associated Notes – shows the total local taxation transactions in relation to council tax and business rates.
- 1.2.3 At **[Annex 1]** is a more detailed overview of the Statement of Accounts and at **[Annex 2]** a checklist certified by the Director of Finance and Transformation in support of the assertions made in the Statement of Responsibilities for the Statement of Accounts.
- 1.2.4 Members will note in accordance with the Accounts and Audit Regulations and in my role as the Council’s responsible financial officer, I have certified that the Statement of Accounts present a “true and fair view” of the financial position of the local authority at the end of the year and its income and expenditure for the year.
- 1.2.5 The Statement of Accounts is subject to external audit.

### **1.3 Accounts and Audit Regulations**

- 1.3.1 The Accounts and Audit Regulations require:

- The Council’s responsible financial officer to certify an unaudited set of accounts for issue that present a “true and fair view” of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019 by no later than 31 May.
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 31 July and that following approval both the responsible financial officer and Chairman of the receiving Committee sign and date the Statement of Accounts.

- Authorities to have in place a sound system of corporate governance and that an Annual Governance Statement is to accompany, but is not part of the Accounts.

## **1.4 Annual Governance Statement**

- 1.4.1 The Annual Governance Statement can be found elsewhere on this agenda. The Statement accompanies the Statement of Accounts, but is not part of the Accounts. The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation. Governing is about how local government bodies ensure they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.
- 1.4.2 The Statement is prepared by way of a self-assessment questionnaire and supporting evidence. The Statement is to be signed by both the most senior Member and officer of the Council.

## **1.5 Audit Findings Report**

- 1.5.1 Our external auditor (Grant Thornton UK LLP) is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts, and for this to be endorsed and approved before the Accounts are signed off. It is this Committee that is charged with governance for this purpose.
- 1.5.2 In accordance with this requirement, the Audit Findings Report on the outcome of the audit of the Statement of Accounts 2017/18, up to the date of the print deadline, is attached at **[Annex 3]**. Some procedural matters are in the process of being finalised prior to the meeting of the Committee and officers will provide a verbal update at the meeting. The Engagement Lead and or their representative will be at the meeting to present the report and to answer questions.
- 1.5.3 Members will note there are no material issues that need to be brought to the attention of the Committee and that the Engagement Lead anticipates being able to issue an unqualified audit opinion on the financial statements and value for money conclusion following this meeting.
- 1.5.4 An adjusted misstatement concerned the valuation of Tonbridge Castle Gatehouse which incorrectly included VAT. An unadjusted misstatement referred to in the Report concerns the legal ruling around age discrimination for pension schemes where transitional arrangements on changing benefits have been implemented. Management's view following an estimate from the actuary is that the impact of the ruling is not material.
- 1.5.5 One recommendation was identified as a result of issues identified during the course of the audit in relation to the valuation process as detailed below together with our response.

	<b>Issue and risk</b>	<b>Recommendations</b>
<b>1</b>	<b>Valuations of PPE and Investment Properties</b> <p>Management obtained valuation from their external valuer for a property that was not required as they were planning on using a fair value based on their own knowledge of the property. There was a material difference between the external valuer's valuation and the Council's valuation.</p> <p>This indicates that there is a control weakness in the process for communicating between the finance department and the external valuer in setting the terms of the valuation engagement.</p>	<ul style="list-style-type: none"> <li>The Council should improve its communication between the finance department and the external valuer.</li> </ul>
	<p>1.5.6 Two further responses required of management concern an additional disclosure in relation to financial instruments that was actioned at the time of the audit; and Brexit preparedness where the Council continues to focus on reacting to the potential of a no-deal scenario and the immediate considerations that would arise from that applicable to the delivery of services.</p> <p>1.5.7 With regard to value for money it was concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Members will note the overall VFM conclusion within the report states:</p> <p style="padding-left: 40px;">“On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.”</p>	<b>Management response</b> <ul style="list-style-type: none"> <li>This issue arose between the timing of instructions to the valuer in October 2018 and circumstances pertaining at the year end. That said agree to review the timeliness and communication of instructions to the valuer going forward.</li> </ul>
<b>1.6</b>	<b>Letter of Representation</b>	<p>For completeness and in accordance with best practice it is recommended that the Chairman countersign the Letter of Representation <b>[Annex 4]</b> that I have prepared. With that in mind Members are asked to approve the Letter for signature by the Chairman and me when Grant Thornton issue their opinion. Accordingly, there is a statement at the end of the Letter which reads: “The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 29 July 2019”.</p>
<b>1.7</b>	<b>Legal Implications</b>	<p>1.7.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement.</p>

There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which will be addressed as we move through the closedown process.

## **1.8 Financial and Value for Money Considerations**

- 1.8.1 As set in the report and accompanying documents.
- 1.8.2 An increase in the audit fee of £5,200 is proposed due to additional work required to be undertaken in a number of areas.

## **1.9 Risk Assessment**

- 1.9.1 The Statement of Accounts is a statutory document and, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescales could adversely affect the Council.

## **1.10 Equality Impact Assessment**

- 1.10.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## **1.11 Recommendations**

- 1.11.1 Members are **RECOMMENDED** to:

- 1) Note the Statement provided by the Director of Finance and Transformation [**Annex 2**] in support of assertions made in the Statement of Responsibilities for the Statement of Accounts.
- 2) Receive and approve the enclosed audited set of Accounts for 2018/19 and request that the Chairman sign the Accounts in the appropriate place.
- 3) Approve the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2018/19 [**Annex 3**].
- 4) Approve the Letter of Representation [**Annex 4**] for signature by the Chairman and me when Grant Thornton issue their opinion.

Background papers:

Investment information provided by King & Shaxson  
Pension information provided by Barnett Waddingham  
Valuation/Impairment information provided by BPS  
Chartered Surveyors

contact: Paul Worden  
Neil Lawley

Sharon Shelton  
Director of Finance and Transformation