

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

**1 STATEMENT OF ACCOUNTS 2019/20 AND EXTERNAL AUDITORS REPORT/
PROGRESS UPDATE ON THE AUDIT OF THE ACCOUNTS**

This report presents a set of Accounts for 2019/20 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, together with the external auditors report/ progress update on the audit of the Accounts. Members are asked to note both the Statement of Accounts as currently presented and the external auditors report/ progress update on the audit of the Accounts. The Engagement Lead and or their representative will be at the meeting to present the report/ progress update and to answer questions.

1.1 Introduction

1.1.1 An audited set of Accounts must be approved by the Council or a Committee of the Council by 31 July (for the 2019/20 Accounts the date has been moved to the 30 November in response to the Covid-19 pandemic). 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 2019/20 report to Cabinet on 3 June 2020.

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 2019/20.

Covid-19 Pandemic

1.2.2 There will be numerous issues that will impact on local authorities as a result of the Covid-19 pandemic. Specific areas within the financial statements include:

- Valuation uncertainty in respect of property, plant and equipment, investment property and heritage assets. The impact that the Covid-19

pandemic has had on valuations has been discussed with our external valuers and their response is set out at Note 7.

- Property investment funds where valuers include a statement of ‘material valuation uncertainty’ declaration in their reporting and advice. The impact that the Covid-19 pandemic has had on valuations is set out at Note 10.
- Pension Fund Assets and Liabilities – The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Further information relating to the pension scheme can be found in Note 11.
- Collectability of debt – It is prudent to establish a provision (impairment allowance) for non-payment of debt. Further details relating to the impairment allowance and the potential adverse impact of the Covid-19 pandemic on collectability of debt can be found in Note 17.

1.2.3 A set of Accounts for 2019/20 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 2020. 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.

1.2.4 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.

1.2.5 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.

1.2.6 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 2020 and its income and expenditure for the year ended 31 March 2020 by no later than 31 May (for the 2019/20 Accounts the date has been moved to the 31 August in response to the Covid-19 pandemic).
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 31 July (for the 2019/20 Accounts the date has been moved to the 30 November in response to the Covid-19 pandemic) 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 Prior to commencing local authority audits the external auditor had to complete the audits of National Health Service Trusts which took longer than they might ordinarily have done due to additional work/ working arrangements as a result of the Covid-19 pandemic.
- 1.5.3 At the time of writing this report the audit of the financial statements is in progress and it is hoped that either an Audit Findings Report or alternatively a progress update will be available at a time closer to the meeting date and published as a supplementary paper to this agenda.

1.6 Legal Implications

- 1.6.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement. 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.

1.7 Financial and Value for Money Considerations

- 1.7.1 As set in the report and accompanying documents.
- 1.7.2 The fee has increased from that originally set by Public Sector Audit Appointments Limited (PSAA) from £35,248 to £42,748 following changes to the scope and depth of audit work required.
- 1.7.3 The budget year 2020/21 and review and update of medium term financial planning assumptions now the focus of attention.
- 1.7.4 In the latter part of the year 2019/20 the Covid-19 pandemic commenced its profound impact across service areas, businesses and the wider community testing the Council's business continuity planning arrangements. It will, in all likelihood, also have a significant adverse impact on the Council's finances and, in turn, reserve balances.
- 1.7.5 Primarily as a result of a likely marked reduction in sources of income (council tax receipts, business rates, fees and charges, rental income and investment income). There are also unbudgeted costs to be met, both time limited and ongoing, e.g. setting up and operation of community hub facilities and increase in temporary accommodation costs.
- 1.7.6 We will not know the extent of the impact on reserve balances for some time, but believe it safe to say unless there is further significant tranches of funding provided by the government, depleted such that the scale and timing of savings targets set out in the Medium Term Financial Strategy will need to be revisited.

1.7.7 As reported to Cabinet in May and again in June the indicative 'ballpark' figures we have come up with are a shortfall in income of between £3m and £5m and increased costs of £350,000 in 2020/21, but again should stress these are best guesses and will undoubtedly change. The scale of the adverse impact beyond 2020/21 dependent on the speed and extent of the recovery. In addition, the Leisure Trust that manages the Council's main leisure facilities on its behalf is in need of financial support. The extent and shape of that support and over what time period is difficult to determine at this stage.

1.7.8 To date two tranches of 'emergency' funding has been provided by the government. The first tranche was £40,538 and the second tranche £1,316,352 giving a total allocation of £1,356,890.

1.7.9 Be assured, I and Management Team will continue to closely monitor the impact on the Council's finances as more information becomes available and a better understanding begins to emerge, and update Members via the Finance, Innovation and Property Advisory Board.

1.8 Risk Assessment

1.8.1 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.

1.8.2 We will not know the extent of the adverse financial impact as a result of the Covid-19 pandemic for some time, but in all likelihood our reserve balances will be very much reduced from that assumed in February 2020; and as a result, in turn, have an adverse impact on the scale and timing of the savings to be achieved.

1.9 Equality Impact Assessment

1.9.1 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.

1.10 Recommendations

1.10.1 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) Note and endorse the Statement of Accounts 2019/20 as currently presented.
- 3) Note the Audit Findings Report/ Progress Update on the audit of the Statement of Accounts for 2019/20 (to be published as a supplementary paper to this agenda).

- 4) Note that the Covid-19 pandemic will, in all likelihood, have a significant impact on the Council's reserve balances and as a result, in turn, have an adverse impact on the scale and timing of the savings to be achieved.

Background papers:

contact: Paul Worden
Neil Lawley

Investment information provided by King & Shaxson
Pension information provided by Barnett Waddingham
Valuation/Impairment information provided by BPS
Chartered Surveyors and J A Warner Ltd.

Sharon Shelton
Director of Finance and Transformation