

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

26 September 2022

### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Delegated

#### **1 STATEMENT OF ACCOUNTS 2021/22 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE ACCOUNTS**

This report presents the current set of Accounts for 2021/22 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom. Members are invited to approve both the Statement of Accounts and the 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 2021/22 must be approved by the Council or a Committee of the Council by no later than 30 November 2022. Under the Council's Constitution responsibility for the approval of the Statement of Accounts is delegated to this Committee.

#### **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 2021/22.

1.2.2 There will be numerous issues that will impact on the finances of local authorities as a result of the Covid-19 pandemic, the current global economic conditions and cost of living crisis. Specific areas within the financial statements include:

- Property Plant and Equipment and Investment Property – Property values are based upon market values and are periodically reviewed to ensure that the Council does not materially misstate the value of its property, plant and equipment and investment property. After reviewing the asset base for this financial year, our internal valuer, Linda Martin MRICS, has given the

follow statement; “The RICS now states that it is up to the individual valuer to make a judgement on market uncertainty based upon specific properties. In respect of the Council’s car parks there remains a level of uncertainty in the valuations given, this is as a result of changes in shopping and working habits and the uncertainty of settling income levels for the car parks.”

As a result the Council considers this advice indicates there is Material Valuation Uncertainty and valuations are subject to change when updated market evidence begins to emerge.

- Short Term Debtors, collectability of debt – It is prudent to establish a provision (impairment allowance) for non-payment of debt. The impact of the current global economic conditions and ‘cost of living crisis’ could potentially have an adverse impact on collectability of debt and will be the subject of ongoing review.

1.2.3 An audited set of Accounts for 2021/22 [**Annex 1**] 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 2022. 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 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 2022 and its income and expenditure for the year ended 31 March 2022 by no later than the first working day of August 2022 (ordinarily 31 May).
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 30 November 2022 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 Audit Findings Report**

1.4.1 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.

1.4.2 At the time of writing this report the external audit is reaching its conclusion and in accordance with this requirement, the draft Audit Findings Report on the outcome of the audit of the Statement of Accounts 2021/22 is attached at **[Annex 2]**. Members will note that the Engagement Lead anticipates being able to issue an unqualified audit opinion on the financial statements following this meeting and will provide a verbal update at the meeting on any residual findings and answer any questions.

1.4.3 Again, at the time of writing, other than a small number of textual changes, two changes have been made to the accounts as a result of the audit and are detailed below.

- Expansion of the financial disclosure notes covering investments.
- A critical judgement added covering the de-minimus valuation of non-fee charging car parks in the borough.

1.4.4 The Audit Findings Report, at pages 18 and 19 gives three recommendations for the Council as a result of issues identified during the audit, these have been details below along with the proposed management response

#### 1. Issue – Mapping of Trial Balance to Financial Statements

Deficiency noted through our journals completeness work, whereby balances are not categorised to the balance sheet as expected. Specifically, the Council includes some of debtor and creditor balances within the same account codes, at year-end the debtors and creditors are manually split out to prepare the financial statements. However, for the purposes of our journals work we were unable to separate the debtor and creditor balances and agree them to the financial statements. To clearly reconcile the trial balance to the financial statements the Council should include separate the account codes for debtors and creditors. Similarly, the Council includes investments, cash and cash equivalents, and accrued interest in the same account codes. Whilst this presents less of a risk, we would still recommend that the Council has separate account codes for each of these balances to maintain a clear audit trail and easily reconcile these balances back to the financial statements.

##### Recommendation

We recommend that the Council maintains separate account codes for each individual balance stated within the financial statements, specifically debtors and creditors should have their own unique account codes to ensure that these balances, as per the trial balance, can be reconciled back to the financial statements.

##### Management Response

The Council's Financial Management System only has the ability to hold a single account balance on each cost centre code. Where Debtors and Creditors are held on a single code further information is provided, as part of the working papers, to our auditors show the split of the net balance, and are therefore of the opinion this would add additional workload to an already tight timetable.

#### 2. Issue - Journal authorisation

There is no formal authorisation process in place for journals at the Council. There is a risk that users could post fraudulent journals to manipulate the financial position without detection, or could disrupt an audit trail. However, we do not consider the risk to be significant given that there are only six users who have the ability to post journals and any unusual material journals posted could be identified via budgetary monitoring.

### Recommendation

We recommend that the Council puts an authorisation process in place for journals. If there are system limitations, the authorisations could be obtained outside the system via email approval from another authorised poster.

### Management Response

Currently there are only six individuals who are involved in the processing of Journals onto the Council's ledger and officer initials are recorded on input. Implementing an authorisation process of these journals whilst would add a further layer of unnecessary certification on a small team of staff.

### 3. Issue - Fixed asset register (FAR)

Deficiency noted in the preparation and maintenance of the Council's FAR. In our plant, property and equipment (PPE) work we noted that the FAR, maintained in an Excel workbook with separate tabs for each asset type. This means that there is not one listing of all assets from which sampling, reconciliations, or other checks can be carried out. Additionally, the FAR does not clearly include data needed to determine accounting entries for revaluation movements. It would be beneficial to the Council if a more comprehensive FAR were to be constructed, as it is clear that management is dealing with challenges relating to the legacy format of the FAR. Furthermore, the reconciliation of the PPE listings is made more complex by the lack of uniformity in asset naming convention across records and the absence of specific asset codes.

### Recommendation

It is our recommendation that the Council should recompose the FAR to consolidate assets onto one comprehensive FAR, including all assets, as well as all the additional elements required for documenting revaluation movements. We also recommend ensuring uniformity in the naming of assets, and the addition of unique asset codes to ensure adequate usability for accounting and audit purposes.

### Management Response

Following the change of postholder in the Principal Accountant Role a review of the Fixed Asset Registers will be conducted over the next few years in order present clearer data to the audit team.

## 1.5 Letter of Representation

- 1.5.1 For completeness and in accordance with best practice it is recommended that the Chairman countersign the Letter of Representation [**Annex 3**] 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.

## 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 The fee for the audit of the 2021/22 Accounts is £59,873. This compares to a current budget provision of £58,250.

## 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.

## 1.9 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) Receive and approve the enclosed audited set of Accounts for 2021/22 [**Annex 1**] and ask that the Chairman sign the Accounts in the appropriate place.
- 2) Approve the Audit Findings Report and the Management Response, as detailed in paragraph 1.4.4 on the outcome of the audit of the Statement of Accounts for 2021/22.
- 3) Approve the Letter of Representation [**Annex 3**] for signature by the Chairman and me when Grant Thornton issue their opinion.

Background papers:

contact: Paul Worden

Investment information provided by King & Shaxson  
Pension information provided by Barnett Waddingham  
Valuation/Impairment information provided by the  
Estates Surveyor and Christie & Co.

Sharon Shelton  
Director of Finance and Transformation