

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

25 September 2023

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 STATEMENT OF ACCOUNTS 2022/23 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE ACCOUNTS

This report presents the current set of Accounts for 2022/23 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 2022/23 must be approved by the Council or a Committee of the Council by no later than 30 September 2023. 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 2022/22.

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:

- The valuation for the Gibson Buildings is reported as subject to Material Valuation Uncertainty under RICS Global Standards. In concluding this opinion it was deemed necessary to take into consideration the potential for redevelopment should the Council no longer wish to occupy all or part of the premises. As such, there would be wider range of purchaser

perceptions which would likely attract bidders in the market at above current valuation levels.

- The valuations for Angel East and West Car Parks include a government subsidy for the loss of income in 2020/21 due to the Covid-19 pandemic. Consumer behaviour has evolved in recent years and the post-pandemic requirement for car parking needs is yet to settle down. This will provide a level of uncertainty surrounding the appetite for car parks until the standard use is known.
- 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 2022/23 [**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 2023. 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 2023 and its income and expenditure for the year ended 31 March 2023 by no later than 31 May 2023.
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 30 September 2023 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 2022/23 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, one change has been made to the accounts as a result of the audit as detailed below.

- Expansion of the notes covering estimates and critical judgements

1.4.4 The Audit Findings Report, at page 23 gives one recommendations for the Council identified during the audit, these have been details below along with the proposed management response

1. Issue – Approval of Journals

Management have a policy that all journals with a value above £25,0000 will be individually approved. However, during the year, we have noted that there were journals which were posted by the Chief Financial Services Officer and approved by him as well. This represents a lack of segregation of duties over approval of journal entries.

Recommendation

Management should ensure proper segregation of duty exists between posting and approving of journal entries.

Management Response

In total 382 Journal forms covering 6,389 lines of entry were posted for the 2022/23 financial year of which less than 5% were undertaken by the Chief Financial Services Officer. These postings covered areas such as the Collection Fund, Pension Arrangements, VAT control and Cash allocations, all of which are subject to higher scrutiny under the audit inspection. From 2023/24 all of these are now the responsibility of the newly appointed Principal Accountant the number of Journals that would be posted by the CFSO will reduce dramatically and will be authorised, if required, by the CFO (Director of Finance and Transformation)

1.4.5 The Audit Findings Report, at page 24 gives the follow up on prior year recommendations. Three recommendations were received following the 2021/22 audit and have been detailed below along with the ongoing management response.

1. Mapping of Trial Balance to Financial Statements

Assessment

Not yet addressed

Issue and risk previously communicated

Deficiency noted through our journal's 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 FS (financial statements).

Update on actions taken to address the issues

Per management comment, the Integra system only holds a single balance for various account codes, and the splitting of these would add significant time to

an already tight timetable to complete the financial statements. Therefore, no further action has been made on this recommendation.

2. Journal authorisation

Assessment

Action Complete

Issue and risk previously communicated

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.

Update on actions taken to address the issues

Per management comment, following discussions with colleagues around Kent, the Council has adopted a plan to authorise any journal line over £25,000. Reports are being prepared for the 2022-23 year to date and the remainder of the closedown period

3. Fixed asset register (FAR)

Assessment

Ongoing

Issue and risk previously communicated

Deficiency noted in the preparation and maintenance of the Council's 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.

Update on actions taken to address the issues

Per management comment, this recommendation was made after using the same format since the inception of capital charges in 1993, that being said management has agreed to review and update these registers, the first being Land and Buildings which has been reviewed in 2022-23 with other FAR's to be reviewed in the forthcoming years.

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 2022/23 Accounts is £61,099 compared to £59,873 for the 2021/22 audit, an increase of £1,226 or 2.0%.

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 2022/23 [**Annex 1**] and ask that the Chairman sign the Accounts in the appropriate place.
- 2) Approve the Audit Findings Report and the Management Responses, as detailed in paragraphs 1.4.4 and 1.4.5 on the outcome of the audit of the Statement of Accounts for 2022/23.
- 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 HTC
and Wilks Head Eye Surveyors.

Sharon Shelton
Director of Finance and Transformation