

Audit & Governance Committee

21 July 2020

Is the final decision on the recommendations in this report to be made at this meeting?

YES

Draft Annual Financial Report and Audit Findings for 2019/20

Final Decision-Maker	Audit & Governance Committee
Portfolio Holder(s)	Councillor Tom Dawlings – Portfolio Holder for Finance and Governance
Lead Director	Lee Colyer – Director of Finance, Policy & Development (Section 151 Officer)
Head of Service	Jane Fineman– Head of Finance and Procurement
Lead Officer/Report Author	Jane Fineman– Head of Finance and Procurement
Key Decision?	No
Classification	Non-Exempt
Wards affected	Not Applicable

This report makes the following recommendations to the final decision-maker:

1. The Committee note Grant Thornton's Audit Findings Report – Appendix B
2. The Committee approve the draft Statement of Accounts and the Annual Governance Statement – Appendix A
3. The Committee authorise the Chairman and the Director of Finance, Policy & Development to sign a Letter of Representation based on Appendix A and the Audit Findings Report.
4. The Committee note the findings of the independent external Value for Money Review of Calverley Square Governance – Appendix C

This report relates to the following corporate priorities:

- A Prosperous Borough
- A Green Borough
- A Confident Borough

Timetable

Meeting	Date
Management Team	Verbal update
Discussion with Portfolio Holder	Verbal Update
Audit & Governance Committee	21 July 2020

Draft Annual Financial Report for 2019/20

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

The draft Annual Financial Report (AFR) for 2019/20 (which contains the Statement of Accounts) was uploaded to the Council website on the 8th June 2020. There have been no material changes since then and the audit is almost complete, as outlined in Grant Thornton's Audit Findings Report (Appendix B). This Committee now needs to give its formal approval in order that the Annual Financial Report can be published before the 2019/20 statutory deadline of 30 November 2020. The deadline has been extended from the 31 July 2020 due to the Covid-19 Pandemic.

2. INTRODUCTION AND BACKGROUND

The Annual Financial Report

2.1 The complete document published at the end of the audit process is termed the "Annual Financial Report" (Appendix A), while the term "Statement of Accounts" comprises the formal accounting statements, including the Collection Fund statement, together with the notes to these accounts. The Annual Financial Report consists of:

- Narrative Report
- The Annual Governance Statement
- The Statement of Responsibilities
- The Independent Auditor's Report
- The Statement of Accounts

Changes to Accounting Standards and other Major Impacts

2.2 The only change to the accounting standards expected in 2019/20 was IFRS 16 Leases. This should have been implemented on 1 April 2020 with impact to the statements in 2020/21. A note should have been included in this year's accounts to lay out the likely impact upon the 2020/21 accounts. This has now been deferred by 1 year due to the Covid-19 Pandemic, which means the effective date for implementation is now 1 April 2021, which will impact the statements in 2021/22.

Headline figures in the Statement of Accounts

2.3 The revenue accounts, as summarised in paragraph 5 of the Narrative Report, show that the Council achieved a cost of services surplus of £11,000 compared to budget, with a further £848,000 surplus to budget achieved from Business Rates and Government Grants received as recompense for Business Rate Reliefs. This, along with £26,000 from additional interest and £1,000 rounding from Council Tax, enabled £842,000 to be transferred to the General Fund. Meeting the revenue budget is a considerable achievement in view of the continual decline in government grants and the effects of Covid-19 at the end of the year. It emphasises the Council's commitment to balancing its budget year on year.

2.4 The Usable Reserves have decreased by £3.2m during the year, from £24.4m to £21.2m (see page 38 of the AFR). This is mainly due the cessation of the Calverley Square project which necessitated £4.442m of cost capitalised in 2018/19 to be treated as revenue expenditure in 2019/20 (see page 12 of the AFR).

2.5 The value of Property, Plant and Equipment fell by £4.955m in the year. This was mainly due to the reversal of the capitalised Calverley Square costs of £4.442m. This was partially offset by £1.082m of capital expenditure on The Amelia Scott project. The disposal of 27 Monson Road and the Crane Lane toilet reduced the value by a further £241,000 and £212,000 has been deducted for the Sychem Lane and Hornbeam properties (see Note 6 of the AFR page 65) that are now “Held for Sale”. This leaves £1.142m which is a real reduction in the value of the council’s assets after depreciation and revaluations in 2019/20.

2.6 There has been an increase in the Council’s net liability for future pension costs, of £3.24m (£5.56m reduction in 2018/19 and £3.6m reduction in 2017/18). In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judicial (McCloud) and fire fighter’s (Sergeant) schemes as part of the reforms, breached age discrimination rules. This was included as a contingent liability in the accounts for 2018/19 as, whilst the impact was unknown at the time of approving the accounts, it was estimated to be below the council’s materiality threshold. The case has now been fully assessed by Barnett Waddingham, the Pension Fund actuary, and the Council now has an additional liability of £785,000 (entitled Curtailments on page 100 of the AFR). Asset performance has been volatile over the period to 31 March 2020, particularly in the last quarter due to the COVID-19 pandemic, which has resulted in a reduction in the value of the fund assets. Conversely, the actuarial assumptions have reduced liabilities, as expected lifespans and salary increases have fallen. The total deficit is measured correctly in line with accounting standards, but does fluctuate quite considerably from year to year as actuarial assumptions change. Actual pension contributions made by the council are reviewed by the actuaries on a triennial basis, with the last review being the 31 March 2019. The estimated cash contribution for 2020/21 is £2,706,000 compared with the actual contribution of £2,517,000 for 2019/20, so the impact is £189,000 on the annual revenue budget of the council.

Accounting Issues

2.7 The Covid-19 Pandemic has been a challenge for the production of the 2019/20 financial statements in a number of areas including:

- Valuation uncertainty within Property, Plant and Equipment
- Valuation uncertainty for Investment Properties
- Valuation of Property Investment Funds
- Impairment of Debtors balances
- Pension Fund Assets and Liabilities

In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 (Red Book), the Council’s valuer has declared a “material valuation uncertainty” in the valuation report. This does not mean that the valuation cannot be relied upon, more it is a disclosure that in the current extraordinary circumstances, less certainty can be attached to the valuation than would otherwise be the case. The valuer has still continued to exercise professional judgement in providing the valuation and given that there is no alternative information to suggest the valuations are materially incorrect, the values provided are the best available reflection of the value of the Councils assets as at 31 March 2020.

Each debt outstanding as at 31 March has been reviewed and an assessment made on the probability of recovery. If the recovery is considered unlikely then a provision for that sum has been made in the accounts. It is possible that certain classes of debt, such as rental income, could be abnormally affected by Covid-19, at least in the short term, as payment holiday requests are accepted and at least 3 months notice must be given of

eviction. The majority of the outstanding debt however, is to other local authorities or to large companies with sufficient reserves to settle their debts.

Many pension assets were valued on the 31 March 2020. Whilst there were some exceptions, it is not considered to be sufficiently material to make an adjustment to the pension asset valuations.

2.8 The new 2017 Business Rating list for National Non Domestic Rates, applicable from 1 April 2017, is subject to a new and significantly more complex appeal process. This has meant that far fewer appeals have been made than would normally have been expected. The low number of appeals thus far is not anticipated to be the case indefinitely and the amounts appealed could be significant and retrospective. The Ministry of Housing, Communities and Local Government has provided an estimate that 2.1p in every £1 of the annual Rateable Value would be appealed. This estimate has then been further refined to specifically recognise those businesses that are in receipt of the various business rate reliefs, which means they are less likely to appeal their rateable value. A provision has been made for these appeals in the Collection fund, which is now calculated to be £8,613,844. The Council's 40% share of the total provision is now £3,445,538 (£2,551,016 at 31 March 2019).

The Audit Findings Report

2.9 The Audit Director from Grant Thornton has issued a draft Audit Findings Report (Appendix B attached) which she will introduce at the meeting. The report states that she expects to issue an unqualified audit opinion and no adjustments have been identified. She reports that the council's Finance team provided the draft financial statements and the working papers by the agreed deadline. She also recorded appreciation of the assistance and timely collaboration of the Finance team and other staff.

2.10 The Value for Money Review, aimed at assessing the Council's Arrangements for delivering economy, efficiency and effectiveness in its use of resources, is now part of the Audit Findings Report. The Audit Director has concluded that the Council had proper arrangements in place, to ensure it delivered value for money in its use of resources.

2.11 In the Draft Annual Financial Report, some paragraphs were included in Critical Judgements as whilst they were not material, it was considered they may be useful to the reader. Local Authorities are encouraged to "de-clutter" their accounts and remove anything that is not required by the Code. The auditor has advised that these should be removed and Note 5 should be amended to separate Critical Judgements and Key Estimates, hence these adjustments have been made. The auditor has also made recommendations for a few minor amendments to the disclosure notes, all of which have been completed for clarity and compliance.

2.12 Page 5 of the Audit Findings Report indicates that there are a few outstanding tasks to be completed. The Covid-19 pandemic has made certain tasks more difficult for the auditor, but all is anticipated to be completed shortly after this meeting. The representation letter will be signed after the Committee meeting.

2.13 The auditor also makes two recommendations for consideration next year. Firstly, she suggests that the council should prepare for the change to IFRS 16, which was in progress anyway as was due to be implemented this year. The second was to consider the impact of the Covid-19 Pandemic on the property valuation frequency and timing. The councils accounting policies state that if there is a significant impact to the property market then the council will undertake revaluations as necessary to give assurance.

Role of Committee and timetable to publication of the Annual Financial Report

2.14 As noted in the Audit Findings Report, the audit is almost complete. This Committee has a duty to approve the Statement of Accounts, which will then be published as part of the Annual Financial Report. It is anticipated that this Committee will also give their statutory approval to the Annual Governance Statement at this meeting.

3. AVAILABLE OPTIONS

3.1 The Committee could decide not to approve the accounts.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 That the Committee approve the accounts in order that the statutory obligations and deadlines are met.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 In line with the Accounts and Audit Regulations, a formal advertisement was placed on the internet drawing the attention of the public to the availability of the draft accounts, and the legal right of interested parties to inspect the accounts and the supporting documentation. The inspection period ended on the 17th July and there were no approaches made.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Once the Independent Auditor’s Report is signed the Statement of Accounts will be published on the Council’s website.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off (name of officer and date)
Legal including Human Rights Act	The Audit Committee has a legal duty of oversight for the Council’s corporate governance arrangements. Under section 151 of the local government act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. There are no consequences arising from the recommendation that adversely affect or interfere with individuals’ rights and freedoms as set out in the Human Rights Act 1998.	Senior Lawyer (Corporate Governance)

Finance and other resources	The Annual Financial Report details the overall unaudited financial position of the authority and is for information only.	Head of Finance, Procurement and Parking
Staffing establishment	There are no specific implications.	Head of HR or deputy
Risk management	The reporting of the draft Report at this stage is designed to improve scrutiny of the Council's draft accounts and therefore to reduce the risk of material error.	Head of Audit Partnership, Deputy Head of Audit Partnership or Audit Manager
Environment and sustainability	There are no specific implications.	Sustainability Manager
Community safety	There are no specific implications.	Community Safety Manager
Health and Safety	There are no specific implications.	Health and Safety Advisor
Health and wellbeing	There are no specific implications.	Healthy Lifestyles Co-ordinator
Equalities	There are no specific implications.	West Kent Equalities Officer

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

Appendix A Draft Annual Financial Report for 2019/20

Appendix B Draft Audit Findings Report for 2019/20

Appendix C Calverley Square Value for Money and Governance Review

9. BACKGROUND PAPERS

Budget 2019/20 (Full Council 27 February 2019)