



Report of the Chief Finance Officer

Report to Corporate Governance and Audit Committee

Date: 23rd November 2020

Subject: Approval of the Audited Statement of Accounts and Grant Thornton Draft Audit Report

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

- Grant Thornton's audit of the final accounts is nearing completion, and a draft report of their findings is attached. A further report covering the findings of their IT audit is also attached as an appendix. The main points are that :
 - Grant Thornton anticipate being able to issue an unqualified opinion on the 2019/20 Statement of Accounts, with an Emphasis of Matter paragraph relating to the material uncertainty surrounding property asset valuations at 31st March 2020, arising from the impact of the Covid 19 pandemic on property markets;
 - There are expected to be no unadjusted audit differences affecting the financial statements;
 - The review of the Annual Governance Statement has concluded that it is not misleading or inconsistent with information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance;
 - Subject to completion of their audit work, Grant Thornton anticipate issuing an 'except for' opinion in relation to the use of resources - that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for a weakness in the level of its General Fund Reserves to deal with significant unforeseen circumstances.

2. An updated copy of the accounts as at 13th November is included with this report. A verbal update will be provided at the meeting as to whether audit work has sufficiently progressed for the Committee to be asked to approve the accounts. The accounts will be certified by the Chief Finance Officer as a true and fair view of the Council's financial position as at 31st March 2020 prior to the Committee being asked to approve them.
3. During the 2019/20 public inspection period, no objections were received from local electors.

Recommendations

4. Members are asked to receive the draft report of the Council's external auditors on the 2019/20 accounts and to note that there are expected to be no unadjusted audit differences to the accounts.
5. Subject to sufficient progress having been made in completing the audit, Members are asked to approve the final audited 2019/20 Statement of Accounts, and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts. In the event that audit work is not sufficiently complete, Members are asked to defer approval of the accounts until the December meeting of the Committee.
6. On the basis of the assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
7. Members are asked to note Grant Thornton's anticipated conclusion on the use of resources, and their associated recommendations in relation to the Council's ability to deliver a balanced outturn position for 2020/21 and a realistic budget for 2021/22.

1 Purpose of this report

- 1.1 At its meeting in July, the Committee considered the unaudited 2019/20 Statement of Accounts, shortly after they were made available for public inspection. Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.

2 Background information

- 2.1 In accordance with the Accounts and Audit Regulations 2015, the Council's Responsible Financial Officer, the Chief Finance Officer, will certify that the Statement of Accounts presents a true and fair view of the financial position of the Council prior to the Committee being asked to approve the accounts. On completion of the Audit, the regulations also require that the accounts are approved by resolution of a Committee and published, together with the auditor's opinion and report. In the event that the audit has not been concluded by 30th November, the Council is required to publish a notice on its website explaining that it is not yet able to publish audited accounts, and the reasons for this. Provided that such a notice is published, the Council would be in compliance with its duties under the Regulations. The Council would then be required to publish its audited accounts as soon as reasonably practicable after the receipt of the final audit report.

3 Main issues

3.1 Key External Audit Findings

3.1.1 Audit Opinion

Subject to completion of some areas of their audit work, Grant Thornton have indicated that they are satisfied the 2019/20 accounts give a true and fair view of the Council's financial position, and that they anticipate being able to issue an unqualified audit opinion with an Emphasis of Matter paragraph relating to the material uncertainty surrounding property asset valuations at 31st March 2020, arising from the impact of the Covid 19 pandemic on property market. Their draft report notes that there are a number of issues to be concluded before this can be done, which may delay the opinion until after 30th November.

3.1.2 Audit Misstatements

Subject to conclusion of the audit, there are not expected to be any unadjusted misstatements.

3.1.3 Audit Risks

Grant Thornton's External Audit Plan, as reported to this Committee in January 2020, identified two key areas of audit risk for the 2019/20 accounts, due to the materiality of the figures involved. These were the valuation of property, plant and equipment and the valuation of net pension liabilities. The update to the audit plan presented at the June meeting of the committee identified the consequences of the Covid 19 pandemic as a further risk.

- 3.1.4 Grant Thornton have now audited these areas and their conclusions are included in the attached report.

3.1.5 Audit recommendations in respect of the accounts

Grant Thornton have made four recommendations in relation to the statement of accounts. One high priority recommendation relates to the fact that related party disclosures for senior officers included in the draft accounts had to be based on the 2018/19 register of interests, as the 2019/20 exercise had been delayed as a result of the coronavirus pandemic. HR have since carried out an exercise to update the register of interests for senior officers. This has been reviewed, with the result that no additional transactions require disclosure, however some items which were disclosed as related party transactions in the draft accounts have been removed as there is no longer a relationship with the relevant entity.

Grant Thornton's draft report also makes three medium priority recommendations. They have again recommended that the Council moves the valuation date for its property assets to 31st March. The Council's valuers have advised that it would not be practicable to produce valuations based on observable data at 31st March in the timescales required for the draft accounts. However the possibility of moving to an early January valuation date is being explored. In respect of heritage assets, Grant Thornton have recommended that procedures are improved for identifying artworks and other exhibits which have increased sufficiently in value to be included in the Council's balance sheet. Officers from Corporate Finance will work with the Museums and Galleries Service to address this. Grant Thornton have also noted issues in relation to working papers. The lack of opportunity for face to face meetings under current circumstances led to difficulties in the communication of changes to the working paper requirements for this year. The Finance team will liaise with Grant Thornton to ensure that the nature and scope of the working papers required can be clarified in advance of future audits.

In respect of their IT audit, Grant Thornton have made six recommendations relating to lower level risks. Their detailed report is attached, and this provides an update on officers' responses to these recommendations.

3.1.6 Use of Resources

Grant Thornton are required to report to those charged with governance, any governance issues identified when discharging their statutory audit responsibilities. They have therefore included in their report an update on the Council's arrangements to secure value for money in its use of resources.

Subject to completion of their audit work, Grant Thornton anticipate issuing an 'except for' opinion in relation to the use of resources - that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for a weakness in the level of its General Fund Reserves to deal with significant unforeseen circumstances, on the scale of the current coronavirus pandemic.

Their draft report makes three high priority recommendations in relation to value for money arrangements. These cover the need for the Council to continue to review the level of its reserves, to continue the ongoing process to identify further savings, and to ensure that the necessary actions are in place to monitor and secure the Council's financial position. Regular meetings will take place between the Chief Finance Officer and Grant Thornton to provide an update on savings identified and the actions taken to achieve them.

3.1.7 Review of the Annual Governance Statement

Grant Thornton have confirmed that, in their opinion, the Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government : A Framework'.

3.2 Post Balance Sheet Events and other significant amendments

- 3.2.1 Under proper accounting practice the Council is required to consider any post balance sheet events which, if known at the time of the accounts being produced, would have significantly altered the Council's financial statements. If such events have occurred then the Council is required to amend the accounts if the cumulative value of the events would have a material impact on the Council's financial statements. Such events must be considered up until this Committee approves the final accounts and the auditors provide their audit certificate.
- 3.2.2 As at the 13th November the council has identified a number of post balance sheet events and corrections which are sufficiently material to require an adjustment to be made to the final accounts.
- 3.2.3 In respect of pensions, the council has been notified by its actuaries of an error in the calculation of the West Yorkshire Pension Fund's assets at 31st March 2020. Correction of this error results in an increase in the council's pension fund assets of £21.6m. However a post balance sheet event in the form of a pension tribunal ruling (known as the Goodwin ruling) in July 2020 has meant that the council is also required to recognise additional pension liabilities of £9.7m as the estimated potential cost of changes to local government pension scheme benefits as a result of this ruling. The net impact of these two changes is to reduce the council's net pension liabilities at 31st March 2020 by £11.9m.
- 3.2.4 The level of the provision for business rates appeals has been reviewed based on the latest available data. This has resulted in a reduction in the provision of £1.1m for the Collection Fund as a whole, of which the council's share is £0.8m. However the level of bad debt provision for business rates has also been reviewed, and has been increased by £1.9m, of which the Council's share is £1.4m.
- 3.2.5 The council has reviewed its accounting treatment for its holding in the Merrion House LLP (Limited Liability Partnership) in the light of the LLP's accounts to the year 30th June 2019, which were published in June 2020. In order to align its approach with the LLP's accounting treatment, the council has concluded that the capital distribution balance of £25.6m which was originally received in 2018/19 and was previously treated as deferred income should be recognised immediately as income, and credited to an earmarked reserve. There will be a corresponding reduction of £26m in the carrying value of the council's long term investment. The net impact of these adjustments will be a reduction in net worth of £0.6m and an increase in spendable reserves of £25.6m.
- 3.2.6 Officers have reviewed the revaluations of fixed assets since the draft accounts were published, and identified corrections to the values of two properties, totalling £4.2m. It has also been identified that a painting valued at £2m had been omitted from the list of high value art works which was supplied for inclusion as heritage assets on the balance sheet.

3.2.7 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £167m, in comparison to the increase of £154m shown in the draft accounts.

3.2.8 As outlined in paragraph 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. A verbal update will be provided at Committee to confirm the final position.

3.3 Public Inspection Queries, Questions to the Auditors and Objections

3.3.1 Under the statutory timescales for public inspection of the accounts, no formal objections or requests for additional information have been received for the 2019/20 accounts.

3.4 Management Representation letter

3.4.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give Grant Thornton such assurances. In respect of the 2019/20 accounts the letter is attached as **Appendix A** to this report. After consultation with appropriate officers, the Chief Finance Officer has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.

3.4.2 The Committee is asked to consider whether members are aware of any issues they want to bring to the auditors attention in respect of the matters addressed in the management representation letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 The audit report does not raise any issues requiring consultation or engagement with the public, ward members or Councillors.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

Climate Emergency

4.3.2 There are no climate implications arising from this report.

4.4 Resources and value for money

4.4.1 Grant Thornton's report includes their opinion as to whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts together with the final audit report to be published before the 30th November. If this is not possible, the Council would be able to comply with the Regulations by publishing a notice giving an explanation for the delay.

4.5.2 Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

4.5.3 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 Grant Thornton's audit report sets out their views on the risks facing the Council in terms of its financial standing and the potential impact of Brexit.

5 Conclusions

5.1 The external audit report provides the following assurances to members :

- Subject to the completion of some audit work, a proposed unqualified opinion on the 2019/20 Statement of Accounts, with an Emphasis of Matter paragraph relating to the material uncertainty surrounding property asset valuations at 31st March 2020, arising from the impact of the Covid 19 pandemic on property markets.
- An anticipated value for money conclusion that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for a weakness in the level of its General Fund Reserves to deal with significant unforeseen circumstances.
- Confirmation that in the auditor's opinion the Council's Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2019/20 accounts and to note that there are expected to be no unadjusted audit differences to the accounts.

6.2 Subject to sufficient progress having been made in completing the audit, Members are asked to approve the final audited 2019/20 Statement of Accounts, and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts. In the event that audit work is not sufficiently complete, Members are

asked to defer approval of the accounts until the December meeting of the Committee.

- 6.3 On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
- 6.4 Members are asked to note Grant Thornton's anticipated conclusion on the use of resources, and their associated recommendations in relation to the Council's ability to deliver a balanced outturn position for 2020/21 and a realistic budget for 2021/22.

7 Background documents¹

- 7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.