

**Report of** the Chief Finance Officer

**Report to** Corporate Governance and Audit Committee

**Date:** 8<sup>th</sup> February 2021

**Subject:** Approval of the Audited Statement of Accounts and Grant Thornton 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 an updated report of their findings is attached. 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 31<sup>st</sup> March 2020 arising from the impact of the Covid 19 pandemic on property markets, and also to material uncertainty in respect of the valuation of private equity and pooled property fund assets held by the West Yorkshire Pension Fund at 31<sup>st</sup> March 2020;
  - There are expected to be no material unadjusted audit differences affecting the financial statements;
  - The final audited accounts will include adjustments to the 2018/19 reported position to reflect a change in the accounting treatment of the £27.3 m received during 2018/19 from the council's investment in Merrion House LLP;
  - 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;

- 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 statement of accounts is included with this report. The accounts will be certified by the Chief Finance Officer as a true and fair view of the Council's financial position as at 31<sup>st</sup> March 2020 prior to the Committee being asked to approve them.
  3. As the conclusion of the audit was delayed beyond the statutory date of 30<sup>th</sup> November, a notice has been published on the Council's website to explain that publication of the final audited accounts is delayed.
  4. During the 2019/20 public inspection period, no objections were received from local electors.

### **Recommendations**

5. Members are asked to receive the final 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. 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.
7. 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.
8. 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. An update on the progress of the audit was provided at the November meeting of the Committee. 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.
- 2.2 In the event that a council's audit has not been concluded by 30<sup>th</sup> 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. The council is then required to publish its audited accounts as soon as reasonably practicable after the receipt of the final auditors report.

## **3 Main issues**

### **3.1 Key External Audit Findings**

#### **3.1.1 Audit Opinion**

Subject to completion of a small number of 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 two groups of assets. This covers the material uncertainty surrounding the council's property asset valuations at 31<sup>st</sup> March 2020, arising from the impact of the Covid 19 pandemic on property market, and also material uncertainty reported by the West Yorkshire Pension Fund's auditors relating to the valuation of its private equity and pooled property fund assets, also as a result of the impact of the pandemic.

#### **3.1.2 Audit Misstatements**

Subject to conclusion of the audit, there are not expected to be any unadjusted material 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, which were included in their draft audit report presented at the November meeting of the Committee. No further recommendations have been made in their final report.

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.

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 report makes three high priority recommendations in relation to value for money arrangements, which were reported at the November meeting of the Committee. No additional recommendations have been made in their final report.

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'.

3.1.8 FRC review of local audit work for 2018/19

In October 2020, the FRC (Financial Reporting Council) published a report of its review of the work of local audit firms for 2018/19. Their report is available at <https://www.frc.org.uk/news/october-2020/frc-publishes-major-local-audit-inspection-results> . Grant Thornton have provided a briefing note on the firm's response to the FRC's report, which is attached as an appendix to this report.

## **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 29<sup>th</sup> January the council had 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 The most significant amendment is a change in the accounting treatment of the capital distribution which the Council received during 2018/19 from the its investment in the Merrion House LLP, which was originally accounted for as deferred income to be amortised in line with profits earned by the LLP. It was reported at the November meeting of the Committee that the Council proposed to amend its accounting treatment to recognise the receipt as income, with a corresponding reduction in the carrying value of the investment. The accounting treatment has been considered further by Grant Thornton, with the conclusion that the reduction to the value of the investment should be reflected as a return of capital, meaning that the receipt should be treated as a capital receipt. In comparison to the position reflected in the draft accounts, this results in a net decrease of £0.6m in the Council's total reserves, incorporating an increase of £25.6m in the Usable Capital Receipts Reserve and a reduction of £26.2m in unusable capital reserves. It has further been agreed that the change in accounting treatment is sufficiently material to be treated as a prior year adjustment to the 2018/19 figures. An additional disclosure note is included in the final statement of accounts to explain the nature and impact of the prior period adjustment.
- 3.2.4 Adjustments in respect of pension assets and liabilities, business rates provisions, the value of property assets, and heritage assets were also reported at the November meeting of the Committee. A review for further post balance sheet events has been undertaken, which has identified two additional areas for adjustment.
- 3.2.5 The level of the provision for business rates appeals has been increased, as a result of a continuing rise in the number of appeals being made during lockdown. The increase for the Collection Fund as a whole is £1.1m, of which the council's share is £0.8m. There has also been an increase in the level of the bad debt provision for business rates of £0.6m for the Collection Fund, of which the council's share is £0.4m. The net result of these two changes is to reduce the level of business rates income recognised in the Comprehensive Income and Expenditure account by £1.2m.
- 3.2.6 During summer 2020, the Council was notified that its Clean Air Zone scheme would be cancelled, and that as a result some of the grant income it had received would be repayable. Initial discussions with the Government have indicated that the Council may have to return up to £6.6m of capital grant and £1.3m of revenue grant which it received during 2019/20. The accounts have therefore been amended to show these amounts as receipts in advance rather than recognising them as income to be held in reserves.
- 3.2.7 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £157m, in comparison to the increase of £154m shown in the draft accounts, and the increase of £167m reported in November. The final accounts show an increase in the level of usable reserves during 2019/20 of £15.9m, however it should be noted that this is in addition to an increase of

£26.8m in the level of usable reserves as at 31<sup>st</sup> March 2019 arising from the prior period adjustment in respect of the Merrion House capital distribution.

- 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 were 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 amended Accounts and Audit Regulations 2015 require the audited Statement of Accounts together with the final audit report to be published before the 30<sup>th</sup> November or, if this is not possible, as soon as practicable after receipt of the final auditor's report on the statement of accounts.
- 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 31<sup>st</sup> March 2020 and the valuation of private equity and property fund assets held by the West Yorkshire Pension Fund, both arising from the impact of the Covid 19 pandemic.
  - 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 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.

- 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 documents<sup>1</sup>**

- 7.1 None.

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<sup>1</sup> 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.