

STATEMENT OF ACCOUNTS 2019/20 – UPDATE 3

SUMMARY:

The purpose of this report is to inform Members' of audit progress for the Council's Statement of Accounts for 2019/20 and provision of the audit opinion since the meeting on 29 March 2021. The Committee is reminded that the deadline for issuing a final set of audit statements of accounts and audit opinion of 30 November 2020 was not met.

RECOMMENDATIONS:

It is recommended that the committee

- i) Note the Statement of Accounts Update Report
- ii) Note the updated process and indicative timetable for approval of the 2019/20 Statement of Accounts and receiving the Audit opinion

1 BACKGROUND

- 1.1 This report updates members on the status of the 2019/20 Statement of Accounts and Audit Opinion. As the Corporate Governance, Audit and Standards Committee has replaced the Licensing, Audit and General Purposes Committee it is useful to provide some additional background information for all members of the committee.
- 1.2 The following commentary is summarised from the Chartered Institute of Public Finance & Accountancy (CIPFA) publication "An introductory guide to local government finance" and provides a useful overview of the Statement of Accounts and Audit opinion process.
- 1.3 Each local council in England is required to produce an annual statement of accounts immediately following the end of the financial year. The accounts contain detailed information on the financial performance, financial position and cash flows of the council. They show not just the income and expenditure of the council, but also the assets and liabilities it holds.
- 1.4 The statement of accounts is a key way that councils are able to demonstrate that they are using public money properly, known as financial stewardship. The format of the statement of accounts is set out in the CIPFA/LASAAC Code and contains the following key statements and each statement is supported by additional disclosure notes.

Financial Statement	What it covers/shows
Comprehensive income and expenditure statement	This is where all the income and expenditure of the council is recorded in line with accounting rules. This statement is similar to the one you would find in a private company.
Movement in reserves statement	This statement shows the impact of the financial year on the council's reserves. This statement also includes all of the income and expenditure that is recognised under accounting rules, but which is then adjusted by legislation to give the amount of expenditure that has been funded by the local tax payer.
Balance sheet	This statement summarises a council's financial position at each year end and reports the assets, liabilities and reserves of the council. Some of the reserves are specific to councils, such as the pensions reserve and the capital adjustment account and exist to allow accounting entries required by legislation.
Cash flow statement	This summarises the cash flows that have been made into and out of the council's bank account during the financial year.

- 1.5 In preparing the Statement of Accounts, the Council will need to undertake a number of key financial assessments and make critical accounting judgements. These are focussed on the assets and liabilities the Council has and are largely associated with Land & Buildings, Vehicles, Equipment and other assets.
- 1.6 When the council invests in new assets it includes these in the balance sheet at the cost of the investment made plus any expenses. In order to ensure that the balance sheet is kept up to date, assets need to be regularly revalued, at least every five years or more frequently for the assets whose values may be volatile. With the impact of Covid and the assets of a commercial nature, this has been an area of focus.
- 1.7 In terms of liabilities, the main item that is considered is the Council's element of the Hampshire County Council Pension Fund (part of the Local Government Pension Scheme). The value of the current and future liabilities (i.e., the benefits that are payable to scheme members) and funding projections to show the financial position of the fund.
- 1.8 The Statement of Accounts and associated documents such as the Annual Governance Statement are subject to external audit examination.

- 1.9 The external auditor of a private sector organisation is required to carry out an in-depth examination of the annual statement of accounts and certify that it represents a 'true and fair' view of the financial position of the organisation. If an auditor finds material errors in the accounts or views them as misleading, they can 'qualify' them, which means that they publicly report on why accounts do not give a true and fair view.
- 1.10 This is essentially the same process that is carried out by the external auditor of a council. However, external audit is also very important in ensuring proper stewardship of public money; therefore, in councils, external auditors look not only at the financial statements but also at the financial aspects of how a council is managed. The external auditor must satisfy themselves that the accounts are prepared in accordance with regulations and accounting rules and that the council made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors may report on their work to the general public and other key stakeholders.
- 1.11 The results of audit work are communicated in a number of reports
- the **Audit Plan** reports on specific areas of audit work where they have concerns
 - the **Audit Report** including the auditor's opinion on the financial statements; a conclusion about whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and a statement on the consistency of consolidation schedules prepared by the authority with the financial statements
 - a **certificate** that the audit of the accounts has been completed in accordance with statutory requirements.
 - the **Annual Audit Letter** about the key issues that the auditor considers should be brought to the attention of the audited body.
- 1.12 Other specific reports may be issued at any point during the audit process, if required such as a **report in the public interest**.
- 1.13 The external auditor has particular duties in relation to questions of legality (whether the council has incurred expenditure that it had no legal power to do), rights of challenge to the accounts (where an elector has formally raised an issue with the auditor about an item in the accounts)

2 INTRODUCTION

- 2.1 Owing to the impact of Covid-19 deadlines for the completion and publication of the 2019/20 accounts have been relaxed recognising the possible disruption to relevant authorities caused by the spread of coronavirus
- 2.2 The table below sets out the changes made to the deadlines, as set out in the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which came into force on 30 April 2020.

Action	Deadline as set out in Accounts and Audit Regulations 2015	Revised Deadline as set out in Accounts and Audit (Coronavirus) (Amendment) Regulations 2020
Draft Accounts completion	31 May	31 August
Public Inspection period	First 10 working days of June of the financial year immediately following the end of the financial year to which the statement relates	First 10 working days of September of the financial year immediately following the end of the financial year to which the statement relates
Publication of Accounts	31 July	30 November

- 2.3 The Council published a draft statement of account 2019/20 on 31 August 2020. These are available on the Council's website:
<https://www.rushmoor.gov.uk/statementofaccounts>
- 2.4 The Council is required under regulation to obtain an independent external audit opinion on the true and fair nature of the statement of accounts. Following provision of the external audit opinion the relevant Council Committee (being Licencing, Audit and General Purposes Committee) is required to approve the accounts and publish both the approved set of account and the audit opinion by 30 November 2020.
- 2.5 As reported to the Licensing, Audit and General Purposes committee at the meetings in November 2020, January 2021 and March 2021 the Council's external auditor opinion was not due to be received until after the statutory deadline with a commitment to work towards an opinion being available for the May 2021 meeting.
- 2.6 In terms of context, it is worth noting that there were 265 public bodies (Councils, Fire and Rescue, Police and other LG bodies) that did not receive an auditor opinion by 30 November 2020 (around 55%) – as compared to 210 out of 486 (43%) for 2018/19.
- 2.7 According to data from Public Sector Audit Appointments (PSAA) the number of public bodies that did not receive their audit opinion by mid-March was 147.
- 2.8 The National Audit Office (NAO) published their report on the timeliness of local auditor reporting on local government in England on 16 March 2021. This report concludes that the position on audit reporting has worsened significantly since their last report in 2019:

“Given the increasing financial challenge and service pressures on local authorities since 2010, local councils need strong arrangements to manage finances and secure value for money. External auditors have a key role in providing independent assurance on whether these arrangements are strong enough and recommending any action. The late delivery of 2019-20 audit

opinions is concerning, given the important part that external audit plays in assurance over taxpayers' money both centrally and locally.

“Since we reported on local authority governance and audit in 2019, despite efforts by the various organisations involved in the local audit system and by the Ministry of Housing, Communities and Local Government, we can only conclude that the local audit system has worsened. The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention. This will require cooperation and collaboration by all bodies involved in the local audit system, together with clear leadership from government.”

<https://www.nao.org.uk/wp-content/uploads/2021/03/Timeliness-of-local-auditor-reporting-on-local-government-in-England-2020-.pdf>

- 2.9 This report provides members with an update on progress made since March 2021.

3 CURRENT STATUS OF THE AUDIT

- 3.1 Members will be aware from the meeting in November 2020 that the Council's external auditors set out in the Audit Plan an outline of the timetable and work required to complete their audit and issue an Audit Results Report.
- 3.2 At the LA&GP meeting in January 2021, members were informed that following discussions with EY on 14 January 2021, it was agreed that the current audit work would be paused until mid-February. This would allow the finance team to complete work on the 2021/22 budget setting process unencumbered by other work pressures. The audit would be reconvened in mid-February with the intention to have a scaled-up audit resource to allow the completion of the audit process to be achieved in advance of the next meeting of LA&GP in March 2021.
- 3.3 Audit work was restarted late in February 2021 and worked through some of the remaining issues. However, there were a number of audit queries that remained unresolved which meant the audit opinion was not available for the committee to consider at the meeting on 29 March 2021.
- 3.4 There has been considerable work from the Council and EY to work through the outstanding audit issues. These are largely focussed on the valuation of the Council's assets with a number of queries raised during the course of the audit of a technical nature. These have taken time to work through and have required the Council's appointed specialist valuers to liaise closely with EY.
- 3.5 Officers from the Council and EY have had weekly virtual meetings during April and May 2021 to assess progress and resolve the audit queries. However, at the time of writing this report, it has not been possible to resolve all of the property queries, although it is anticipated that these will be cleared by 21 May 2021.

- 3.6 Once all the remaining audit queries have been resolved, the Council will also have to provide EY with an updated impact on the Council's finances from Covid-19 and any Post Balance Sheet Event (PBSE) given the ongoing risk Covid-19 poses to the Council's financial standing. In order to complete the accounts and audit opinion process, the Statement of Accounts would need to include a detailed Disclosure Note that addresses Going Concern.
- 3.7 A Disclosure Note will be drafted with an updated forward projection of the Council's Reserves and Balances and a projection of the Council's cashflow and liquidity for the next 18 months, and a forward projection of reserve deployment over the MTFS period.
- 3.8 A further meeting will be scheduled with EY in due course and a verbal update will be provided to the committee outlining actions and a provisional timescale for completion of the audit opinion.
- 3.9 The Council and EY will need to assess the timing of finalising the audit opinion on the 2019/20 accounts. The Council will need to have regard to the impact on the finance team of the work required to produce the Statement of Accounts for 2020/21 which is likely to have a bearing on the timescale. The Council must be able to produce the Statement of Accounts by the statutory deadline (see Section 4 of this report which sets out the key dates).
- 3.10 Therefore, it is anticipated that the audited Statement of Accounts and the Audit Results Report will not be ready to be considered by the committee at their meeting in July 2021 at the very earliest.

4 2020/21 STATEMENT OF ACCOUNTS AND AUDIT TIMINGS

- 4.1 Deadlines for the completion and publication of the 2020/21 and 2021/22 accounts have been amended as part of the Government's response to the recommendations contained in the independent Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond review reported on 08 September 2020.
- 4.2 The regulations will amend the draft and final accounts publication deadlines for relevant bodies from 1 June and 31 July to 1 August and 30 September for the next 2 accounting years – i.e. 2020/21 and 2021/22 and the position will be reviewed at that time. The regulations come into force on 31 March 2021.

Action	Deadline as set out in Accounts and Audit Regulations 2015	Revised Deadline as set out in Accounts and Audit (Amendment) Regulations 2021
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3.3 The Council has amended its 2020/21 accounts closure process to meet the revised Accounts and Audit Regulation 2021 timetable. The timetable will be challenging against the backdrop continuing COVID-19 pressures. In addition, the delay in concluding the 2019/20 audit means that the opening balance for 2020/21 will be fluid. Working on two audit year at the same time and having to revisit opening balances will increase the workload for the Council and potentially further delay the audit process for 2020/21.

5 CONCLUSION

5.1 There is some uncertainty around the timing of when the Council will receive the audited financial statements and EY's Audit Opinion. As indicated in the report, this is not likely to be until July 2021 at the earliest.

5.2 It is worth reassuring members that the additional time taken is not due to errors, omissions or matters concerning the quality of the final accounts.

Contact Details:

Report Author and Head of Service:
David Stanley – Executive Head of Finance
01252 398440
david.stanley@rushmoor.gov.uk