



Meeting: Audit Committee

Date: 25 September 2019

Wards Affected: All Wards

Report Title: Statement of Accounts and Annual Governance Statement 2018/19

Executive Lead Contact Details: Darren Cowell, Cabinet Lead for Finance

Supporting Officer Contact Details: Martin Phillips – Chief Finance Officer, (01803) 207285, Martin.phillips@torbay.gov.uk

1. Purpose and Introduction

- 1.1. The Accounts and Audit Regulations 2015 require the audited Council's Statement of Accounts for the year ended 31 March 2019 to be published before 31 July 2019. This is the first time since the new regulation was introduced that the Council has not been able to meet this deadline due to the external audit not being completed. A public notice was placed in August stating the reason for the delay:-

This is due to a peak period of work during June and July, when all local government accounts are audited, our auditor, Grant Thornton, has been unable to conclude the audit. Grant Thornton is aiming to conclude its work by the end of September, using specialists in local government audit.

- 1.2. The external audit started on the 5th August with the approval by Audit Committee being delayed until the 25^h September 2019.
- 1.3. The Accounts and Audit Regulations 2015 require approval of the Council's Statement of Accounts for the year ended 31 March 2019 by a committee of the Council before 31st July 2019. For Torbay Council approval is given by the Council's Audit Committee. Due to the audit being delayed the Council was unable to meet this deadline.
- 1.3 The same regulations, require approval of an Annual Governance Statement to inform Members of the Council's Governance and Internal Control framework and any significant control issues.

2. Proposed Decision

- 2.1 That Audit Committee having reviewed the accounts including the significant accounting policies and considered the External Auditor's report and opinion on the Accounts, approve the Statement of Accounts and Annual Governance Statement 2018/19 (attached at Appendix 2).**
- 2.2 The Letter of Representation (attached at appendix 1) is approved.**

3. Reasons for the Decision

- 3.1 The Account and Audit Regulations 2015 require approval of the audited 2018/19 Statement of Accounts for the year ended 31 March 2019 by a committee of the Council before 31 July 2019. Due to the external audit being delayed the Council was required to place a public notice stating the reason why the Council was unable to meet the deadline (see 1.1 above). For Torbay the Audit Committee can “on behalf of the Council approve the annual statement of accounts”. In addition the Regulations require that the person presiding at the meeting shall sign and date the accounts. As a key part of this process the Audit Committee will consider these Accounts prior to approval, and will also receive and consider the External Auditor’s report and opinion on the accounts.
- 3.2 As required by the Account and Audit Regulations 2015 the Accounts were “authorised for issue” by the Council’s Chief Finance Officer on 31 May 2019 and have been available on the Council’s website since then. The accounts, as required by the Regulations, were available for public scrutiny during June and early July 2019.
- 3.3 The annual external audit of the accounts by the Council’s appointed auditor, Grant Thornton, started on 5th August and will be completed before the statutory deadline of the 30th September.
- 3.4 At this meeting Grant Thornton will report on the Accounts to Audit Committee which will enable members to consider the External Auditor’s report prior to the Committee’s approval of the Accounts.
- 3.5 The Accounts presented to the Audit Committee are the Accounts as authorised for issue in May 2019, updated for any adjustments agreed with the External Auditor, prior to final publication shortly after approval by Audit Committee in September and receipt of the external auditors “signed opinion”.
- 3.6 Cabinet, in July 2019, received reports on both revenue and capital spending during the last financial year and those reports are consistent with the financial information in the Statement of Accounts.

Supporting information

A1 Introduction and history

- A1.1 The principal legislation relating to the keeping of local authority accounts is contained in the Local Government and Housing Act 1989 and the Accounts and Audit Regulations 2015. Local authority accounts are required to present a “true and fair view” of the financial position of the authority. The audit requirements of accounts are contained in the Local Audit and Accountability Act 2014.
- A1.2 The Account and Audit Regulations 2015 regulations require that the responsible financial officer of the Council shall sign by 31st May each year the Statement of Accounts and certify that it presents a “true and fair” view of both the financial position of the Council at the end of the year to which it relates and its income and expenditure. The Council’s responsible financial officer, Martin Phillips, has certified the Accounts.

- A1.3 The Regulations also require the audited Statement of Accounts to be published before July 31st each year. With approval by a committee before the 31st July 2019, for Torbay Council this is the Audit Committee. In addition the Regulations require that the person presiding at this meeting shall sign and date the accounts. This year as the audit was delayed the approval has been delayed until September.
- A1.4 For 2018/19, as the Council's external audit did not start until 5th August, much later than in recent years.
- A1.4 The Statement of Responsibilities for the Statement of Accounts to be signed by the person presiding at this meeting is within the Statement of Accounts. The intention behind this requirement is that the signature of the person presiding at the meeting shall formally represent the completion of the Council's approval process of the accounts.
- A1.5 The Council as part of the process of the external auditor's opinion on the Accounts is also required to complete a Letter of Representation (attached at Appendix 1) to confirm that all relevant information has been disclosed and made available to the auditor.

A2 Accounts and Audit Regulations 2015

- A2.1 The Accounts and Audit Regulations 2015 came into force on the 1 April 2015.

These regulations require Councils to:-

- Publish the unaudited accounts, signed by the Chief Finance Officer, by the 31st May.
 - Final publication of the audited accounts by the 31st July. The 31st July deadline will also apply to the Annual Governance Statement.
- A2.3 For 2018/19 the Council issued its Accounts by the end of May. This is a good achievement for the Council and its finance team. It is challenging for the Council to meet earlier deadlines on a regular basis along with further changes in accounting expected in future years and the requirement for group accounts as well as single entity accounts. This will inevitably continue to place additional pressure on the finance team between March and May each year.
- A3.2 These requirements place pressures on finance and service staff to produce the information required in a short time period and in particular the pressure tends to fall on a few key individuals in May to produce the statutory accounts. It should be noted that although the Statement of Accounts is produced by Financial Services the support of service staff, who order, authorise and control income and expenditure is vital in this process. The Head of Finance and his staff, again, recognise the support given by service staff and without their support this timetable would not have been met.

A4. Group Accounts and Partnership Working

- A4.1 A key issue that affects the closure of the Council's accounts is the requirement to include the accounts of other bodies where the Council has control or significant control.
- A4.2 The Council owns, or has influence on, a number of companies including TOR2, Careers South West, and its subsidiaries, Torbay Economic Development Company and its subsidiaries including Complete Cleaning Solutions Limited, Oldway Mansion Management Company and three Housing related companies. These are accounted for, if material, as subsidiary, associate companies or joint ventures depending on the level of Council's control/ownership.
- A4.3 This places additional work on finance staff, both within the Council and within the companies to produce information on an International Financial Reporting Standards (IFRS) basis in a short period to meet the deadline of 31 May. This is a particular pressure for the companies as the timetable for Councils to issue accounts is seven months earlier than the timetable for Companies to issue accounts. The Head of Finance and his staff, again, recognise the support given by staff within these companies and without their support this timetable would not have been met.
- A4.5 In addition the Council has to disclose details of all arrangements with other bodies that could be classified as a related party or pooled budget arrangement such as the Devon Audit Partnership Joint Committee. It is vital that the Council has an understanding of all the "partnerships" and joint working arrangements it has entered into, particularly in terms of legal issues, financial control and any risks and/or rewards the Council has from the arrangement.

A5 2018/19 Statement of Accounts

- A5.1 The Accounts are included within the "Financial Reports and Accounts for the Year 2018/19" as shown in appendix 2. The Accounts are produced in line with IFRS and "proper practice" issued by CIPFA. As a result it is a technical document with its content and format largely prescribed by guidance and legislation.
- A5.2 The other information included in the Financial Report, i.e the Narrative Statement and Annual Governance Statement are published with the Accounts.
- A5.3 The Council's accounting policies, which underpin the information within the Statement of Accounts, are reviewed on an annual basis by the Chief Finance Officer to ensure that the selection of the accounting policies is consistent with the latest guidance and standards (IAS8). The Council's Accounting Policies that are significant are shown within the Statement of Accounts and are part of the approval of the Accounts.

A6 Future year Statement of Accounts

- A6.1 There are a number of accounting changes and others issues that will impact on future year Council Accounts:

- 1) As the turnover of the council's subsidiary companies increases to be more "material", then in addition to completing single entity accounts by end of May the Council will also produce consolidated group accounts by that date as well. This will put particular pressure on the subsidiary companies to produce draft accounts by early May each year to enable the Council's finance staff time to consolidate and produce group accounts. Group accounts were included for 2018/19 but the level of balances were close to materiality so were a "light touch". If as expected the Council's subsidiary operations expand the group accounts will require a higher number of notes, reporting and audit.
- 2) For 2020/21, a new accounting standard in relation to Leasing will have more of an impact. The definition of a finance lease and operating lease will disappear with the majority of leases to be recognised as a lease asset and liability on the lessee's balance sheet.

A7 Annual Governance Statement

- A7.1 As required by the Accounts and Audit Regulations as part of its annual review of its internal control system, the Council will prepare an Annual Governance Statement which is then approved by a committee of the Council. Audit Committee on 18 June 2019 reviewed the statement.
- A7.2 The 2018/19 Annual Governance Statement is included and is required to be published as part of the Statement of Accounts.

A8. Other Final Accounts Requirements

- A8.1 The Approval of the Council's statutory Statement of Accounts is an important part of the final accounts process; however there are other requirements that relate to 2018/19 year end. These include:
- WGA Return, subject to a limited external audit
 - Revenue and Capital Central Government returns on 2018/19
 - Children's Services related "section 252" return
 - Any grant claims which will be subject to external audit
 - The publication of the Statement of Accounts
 - Publishing (and advertising) the Accounts and completion of the audit

A9 Possibilities and Options

- A9.1 Approval of the Accounts is a statutory requirement.

A.10 Preferred Solution /Option

- A10.1 As set out in the recommendation.

A.11 Risks

- A11.1 Impact on Council's reputation and negative external auditor comments if Accounts are not approved by end May.

A12 Consultation

A12.1 The unaudited Accounts have been on the Council website since early June 2019, together with a public notice advertising the public inspection period. The public notice has also been displayed on the public notice board outside of the Town Hall.

Appendices

Appendix 1 - Letter of Representation 2018/19

Appendix 2 - Financial Reports and Accounts for the year 2018/19



Please reply to:

Torbay Council
Town Hall,
Castle Circus
Torquay, TQ1 3DR

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

My ref: MP/HG
Your ref:
Telephone: 01803 207285
E-mail: Martin.phillips@torbay.gov.uk
Website: www.torbay.gov.uk
Date: 25th September 2019

Dear Sirs

Torbay Council - Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Torbay Council and its subsidiary undertakings, (see appendix 1) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

- i. We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/19 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent

- b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its financial position at the year-end. The group and parent Council financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
- xiv. We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or

- c. others where the fraud could have a material effect on the group and parent Council financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 September 2019.

Yours faithfully

Name: Martin Phillips

Position: Head of Finance

Date: 25 September 2019

Name: Councillor Robert Loxton

Position: Chair of Audit Committee

Date: 25 September 2019

Signed on behalf of the Council

Company Name and Reg'n No	Type of Company	Commenced Trading	Principal Activities during the year	Assessed Relationship
Torbay Economic Development Company Ltd 07604855 Trading as Torbay Development Agency (TDA)	Private Limited Company	14 th April 2011	<p>To bring about Regeneration in Torbay</p> <p>In 18/19 Council paid £1.2m (£1.3m 17/18) grant</p> <p>In addition in 2016/17 the Council has provided a loan to the company. Balance outstanding at year end of £1.4m</p> <p>TEDC purchased C & A Consultancy (Torbay) Limited (02773632) in April 2019</p>	Subsidiary
Complete Facilities Management Services Limited 10608599	Private Limited Company – 100% owned by Torbay Economic Development Company Ltd	1 April 2017	<p>To provide cleaning services to the Council, TDA and other clients</p> <p>In 18/19 Council funded a £0.2m (£0.2m 17/18) payment</p>	Subsidiary
KAH Holdings Limited 11088019	Private Limited Company – 100% owned by Torbay Economic Development Company Ltd	Not trading in 2018/19	To manage property owned by Torbay Economic Development Company Ltd	Subsidiary
Business Centres South West Limited 10829733	Private Limited Company – 100% owned by Torbay Economic Development Company Ltd	Not trading in 2018/19	To manage innovation centres across the South West of England	Subsidiary
Oldway Mansion Management Company Ltd 08219420	Company limited by share	20 th September 2012	<p>To manage the Oldway Estate on behalf of Torbay Council and tenants</p> <p>In 18/19 Council funded a £0.04m (£0.1m 17/18) payment</p>	Subsidiary (not material)
TOR2 Ltd 07204696	Company limited by share	19 th July 2010	<p>Waste and recycling collections; maintenance of highways, grounds, parks, car parks, buildings and the Council's vehicle fleet; street and beach cleansing; and out of hours call centre support in the Torbay area</p> <p>Council has 10 year contract with TOR2 for a number of services. For 2018/19 annual cyclical works were approx £10.7 (£10.7m 17/18) and ordered works approx £1.8m (£2.0m 17/18)</p>	Associate

CSW Group Ltd (formally Careers South West Ltd) 3029947	Local Authority Controlled Company Limited by Guarantee and not having a share capital	1 st April 2008 formerly Connexions Cornwall & Devon Ltd	To develop, co-ordinate, operate and ensure provision of support services for young people and provide careers advice, information and guidance to people of all ages. In 18/19 Council funded a £0.4m (£0.3m 17/18) payment	Associate
Torbay Housing Company Limited 10960992	Company limited by share	Not trading in 2018/19	To support the implementation of the Council's Housing Strategy	
Torbay Housing Development Company 11214978	Company limited by share 100% owned by Torbay Housing Company Limited	Not trading in 2018/19	To support the implementation of the Council's Housing Strategy	
Torbay Housing Rental Company 11214868	Company limited by share 100% owned by Torbay Housing Company Limited	Not trading in 2018/19	To support the implementation of the Council's Housing Strategy	