



Meeting: Audit Committee

Date: 23 November 2020

Wards Affected: All Wards

Report Title: Statement of Accounts and Annual Governance Statement 2019/20

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1. Purpose and Introduction

- 1.1. The Accounts and Audit Regulations 2015 require the audited Council's Statement of Accounts for a year ended 31 March to be **published** before 31 July of that year. However linked to the disruption caused by COVID-19 this date was extended to 31 August for 2019/20 only.
- 1.2. The external audit started on the 5th October and is substantially complete with the approval by Audit Committee now the 23rd November 2020.
- 1.3. The Accounts and Audit Regulations 2015 require **approval** of the Council's Statement of Accounts for the year ended 31 March by a committee of the Council before 31st July of that year. For Torbay Council approval is given by the Council's Audit Committee. However linked to the disruption caused by COVID-19 this date was extended to 30 November for 2019/20 only.
- 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 2019/20 (attached at Appendix 3).**
- 2.2 **That Audit Committee delegate to the Chief Finance Officer, in consultation with the Chair of Audit Committee, the authorisation to make any changes to the 2019/20 Accounts arising between the date of this report and the finalisation of the external audit.**
- 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 Statement of Accounts for the year ended 31 March by a committee of the Council before 31 July, (30 November for 2019/20). 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 11 August 2020 and have been available on the Council’s website since then. The accounts, as required by the Regulations, were available for public scrutiny during August and early September 2020.
- 3.3 The annual external audit of the accounts by the Council’s appointed auditor, Grant Thornton, started on 5th October and is expected to be completed before the statutory deadline of the 30th November.
- 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 August 2020. They will be updated for any adjustments agreed with the External Auditor, prior to final publication shortly after approval by Audit Committee in November and receipt of the external auditors “signed opinion”.
- 3.6 Cabinet, in June 2020, 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 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 each year with approval by a committee. 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 2019/20, the Council's external audit did not start until 5th October, much later than in recent years which was in part linked to the impact of COVID19 on audit resources and the revised dates for 2019/20.
- 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.
- A3.2 The requirements to produce statutory accounts in line with statutory timetables 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 In 2019/20 the Council owns, or has influence on, a number of companies including TOR2, Careers South West, and its subsidiaries, TDA and its subsidiaries including Complete Cleaning Solutions Limited and Torvista. These are accounted for, if material, as subsidiary, associate companies or joint ventures depending on the level of Council's control/ownership. Group accounts were included for 2019/20 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.
- 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 (31 August 2020). This is a particular pressure for the companies as the timetable for Councils to issue accounts is (usually) 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 important 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 2019/20 Statement of Accounts

A5.1 The Accounts are included within the “Financial Reports and Accounts for the Year 2019/20” as shown in appendix 3. 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 other issues that will impact on future year Council Accounts:

- 1) For 2021/22, 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.
- 2) Any impact from the Redmond Review such as the publication of an additional “simplified financial statement. (see section 9 below).

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. The Annual Governance Statement was circulated to Audit Committee members in May of this year for comment which resulted in a number of updates. A record of decision was issued on 28 May 2020.

A7.2 The 2019/20 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 2019/20 year end. These include:

- WGA Return, subject to a limited external audit
- Revenue and Capital Central Government returns on 2019/20
- 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 Redmond Review

A9.1 There has been a national issue over the quality and scope of external audit over the past few years with a number of reports and press comment on the issues.

A9.2 As a result Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting which was published in September 2020.

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

A9.3 The recommendations in the report are a mixed picture. It will have an impact on councils and their auditors (internal and external). The recommendations will give a higher profile for audit and audit reporting which should be welcomed. However the report fails to address the issue that local authority accounts are "impenetrable" to the majority of readers and, rather than enforce a simplification of these accounts, the recommendation is to produce an additional "simplified financial statement" and to extend the period that councils have to publish their accounts.

A9.4 The Devon Audit Partnership have produced a checklist of recommendations from the Redmond Review and these are included in Appendix two for information.

A9.5 Once the recommendations have been consolidated into the relevant Codes of Practice and legislation a full report and recommendations will be presented to Audit Committee and Council. However the Audit Committee or Council could choose to implement some of these recommendations earlier.

A10 Possibilities and Options

A10.1 Approval of the Accounts is a statutory requirement.

A.11 Preferred Solution /Option

A11.1 As set out in the recommendation.

A.12 Risks

A12.1 Impact on Council's reputation and negative external auditor comments if Accounts are not approved by end May.

A13 Consultation

A13.1 The unaudited Accounts have been on the Council website since early August 2020, 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 2019/20 – to follow

Appendix 2 - Redmond Review Checklist

Appendix 3 - Financial Reports and Accounts for the year 2019/20