

AUDIT COMMITTEE

19 NOVEMBER 2020

STATEMENT OF ACCOUNTS 2019/20 AND AUDIT FINDINGS REPORT 2019/20

Report from: Phil Watts, Chief Finance Officer

Author: Andy McNally-Johnson, Finance Business Partner (Corporate Reporting)

Summary

This report presents the Draft Statement of Accounts 2019/20 for Medway Council presented at Appendix 1 and provides an update on the ongoing audit by Grant Thornton with their Audit Findings Report, presented at Appendix 2 (to follow).

The Accounts and Audit Regulations (Coronavirus) (Amendment) 2020 require that the Audit Committee consider the issues raised by the external auditors prior to approval of the Statement of Accounts.

1. Budget and policy framework

- 1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report.
- 1.2 The Accounts and Audit Regulations (Coronavirus) (Amendment) 2020 require that the Audit Committee consider these issues by 30 November 2020.
- 1.3 The audit of the Statement of Accounts is ongoing, however Grant Thornton, the Council's External Auditors, have confirmed they will be in a position to share an update through an Audit Findings Report in advance of the Committee Meeting. Therefore, their report, Appendix 2 to this item, will be circulated separately to the main agenda, ahead of the meeting.

2. Background

2.1 The draft Statement of Accounts for Medway Council for 2019/20 was published on the Council's website on 31 August 2020 and is provided at Appendix 1 to this report. As set out in the Audit Plan item elsewhere on this agenda, the Council's external auditors, Grant Thornton are responsible for forming and expressing an opinion on:

- The Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in its use of resources.

3. Auditor's Report

3.1 Grant Thornton commenced their audit of the Statements in August and at the time of producing this report, their audit is ongoing.

3.2 At the date of preparing this report, in response to the work of the Auditors to date, we have agreed to make the following revisions to the Council's Statements from the version presented at Appendix 1:

3.2.1 Accounting Policies will be laid out in a clear way so it is obvious they are accounting policies (Notes 1,17,18,21,22,24,25,26,28,32 and 34).

3.2.2 Narrative adjustments have been required to both the "Critical Judgement in Applying Accounting Policies" and "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" (Notes 3 and 4).

3.2.3 Further narrative has been added to the Expenditure and Funding Analysis (Note 5) to assist further understanding.

3.2.4 Adjustments have been required within Property, Plant & Equipment (PPE) (Note 21) relating to the categorisation of the Pentagon, but this does not change to overall total.

3.2.5 Valuations for non-current assets transferred from PPE to Assets Held For Sale (AHFS) were included in the AHFS (Note 25) but should have been completed prior to the transfers, which has meant a change in the disclosures for each note, but no change to the overall totals.

3.2.6 Various changes to the Financial Instruments (Note 26) are required with regards to the disclosure requirements, which will mean various adjustments which are still being finalised with Grant Thornton (GT).

3.2.7 There are some changes within Provisions (Note 34) relating to the NDR Appeals Provision, whereby all were shown as Short term, whereas there should have been a split between Short term and Long Term. Whilst the amounts between Long and Short Term will change, the overall position for Provisions as a whole will remain the same.

- 3.2.8 There was a requirement for comparator disclosure notes within the text to the Members Allowances note.
- 3.2.9 A small change is required to the officers remuneration (Note 14) relating to the name of one post in the senior officers disclosure for 2018/19.
- 3.2.10 A change has been made to External Audit Costs (Note 15) relating to the additional fees which will be agreed following the completion of the work undertaken by GT. This has been explained with additional narrative.
- 3.2.11 A prior year comparator column has been added to the Dedicated Schools Grant (Note 16).
- 3.2.12 Cash & Cash Equivalents have been overstated relating to schools that have been transferred to academies, meaning those balances should have been transferred to the schools reserve within usable reserves. This will mean changes throughout the statements, but those changes are to a value of £242,000.
- 3.2.13 Changes will be required to Leases (Note 29) but these are still being finalised with GT.
- 3.2.14 Comparator figures for the 2018/19 life expectancy tables within the Defined Benefits Pensions Schemes (Note 37) were incorrect and have been amended.
- 3.2.15 Issues have been found with the classification of some borrowing, classed as long term but should have been short term. These adjustments will affect the Balance Sheet and Financial Instruments notes, but will not affect the overall net assets position.
- 3.2.16 An exercise is currently underway to determine the level of charges between services within the council which, under IFRS, will mean that the Comprehensive Income and Expenditure Statement (CIES) and associated notes will have grossed both expenditure and income. Once complete and agreed, there will be adjustments to remove these gross figures from the CIES and associated notes, but the changes will not affect the overall totals.
- 3.3 The Audit Findings Report (Appendix 2 (to follow)) contains an update on the results of the Auditor's review of:
- Financial Statements;
 - Control Environment;
 - Governance Reporting;
 - Use of Resources; and
 - Associated appendices.
- 3.4 If in concluding their work, the Auditor requires any material changes to the Statements in addition to those set out in paragraph 3.2 or in their report at

Appendix 2, the Chairman of the Audit Committee will be asked to approve a revised set of Statements on behalf of the Committee.

4. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Late approval of Statement of Accounts	The external auditor is unable to provide an opinion of the Councils Statement of Accounts by 30 November 2020.	Officers are working closely with Grant Thornton, dealing with audit issues and providing responses as quickly as possible.	C3

5. Financial implications

- 5.1 The audit update report from Grant Thornton, will provide an update as to any potential additional charges in addition to the core audit fees agreed by the PSAA, together with the reasons for any variations. Any additional fees agreed by the Chief Finance Officer will need to be met within existing revenue budgets.

6. Legal implications

- 6.1 Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.

7. Recommendations

- 7.1 The Committee is recommended to note the issues raised and judgements made by the Auditor as presented at Appendix 2 to the report.
- 7.2 The Committee is recommended to approve the Statement of Accounts 2019/20 at Appendix 1, subject to amendments agreed by the Chief Finance Officer with the Council's Auditor, and to note that if any material amendments are required after the meeting by the Council's Auditor, the Chairman will be asked to approve a revised Statement of Accounts 2019/20 on behalf of the Committee.

Lead officer contact

Andy McNally-Johnson, Finance Business Partner (Corporate Reporting), Gun Wharf, 01634 333552, andy.mcnallyjohnson@medway.gov.uk

Appendices

Appendix 1 – Draft statement of Accounts 2019/20.

Appendix 2 – Audit Findings Report (to follow).

Background papers

None