

For publication

Audit Report on the 2019/20 Statement of Accounts

Meeting: Standards & Audit Committee

Date: 23rdth September 2020

Report by: Acting Chief Finance Officer

For publication

1.0 Purpose of report

1.1 To approve the Statement of Accounts for 2019/20.

1.2 To receive the external auditor's 'Report to those Charged with Governance'.

1.3 To approve the 'Letter of Representation'.

2.0 Background

2.1 The Accounts and Audit Regulations require that:

- No later than 31st May following the financial year end the responsible financial officer must certify the annual accounts as presenting a true and fair view of the financial position of the authority at 31st March; and

- No later than 31st July the annual accounts and audit opinion must be approved by members and published.

As a result of Covid19, the deadlines were amended by the Accounts & Audit Regulations 2020 which delays these deadlines to 31st August and 30th November respectively.

The Standards and Audit Committee is the nominated body for approving the accounts. The audited Statement of Accounts (SoA) is included at **Annexe 1**.

3.0 **Assessment of Going Concern Status**

- 3.1.1 The concept of 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Code of Practice for Local Authority Accounting and is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government).
- 3.1.2 If an authority were in financial difficulty, the prospects are that alternative arrangements would be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 3.1.3 Where the assessment determines the 'going concern' status is not proven, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

3.1.4 Given the impact of Covid19 on local authorities financial position and the potential threat this poses to the ongoing viability of councils as a consequence, external auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. The 2019/20 financial statements largely reflect a pre-Covid set of circumstances and we need to be confident that we understand and have taken into account any threats to financial sustainability.

3.1.5 The Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2019/20 (hereafter referred to as the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

3.2.1 The main factors which underpin this assessment are:

- Current financial position;
- Projected financial position;
- Balance sheet;
- Cash flow;
- Governance, regulatory and control environment.

Each of the above is considered in more detail below.

3.2.2 The provisions in the 2019/20 Code section 3.4 (Presentation of Financial Statements) on the going concern accounting requirements, reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their

financial statements to be prepared on anything other than a going concern basis.

Current Financial Position

General Fund

3.3.1 The Cabinet considered the overall outturn report for 2019/20 on 9th June. The report provides more of a commentary on the outturn, variances from budgets and level of reserves. The position at year end was a surplus of £107k which was transferred to reserves. As at 31 March 2020 the Council had a General Fund working balance of £1.5m in line with its Financial Strategy and held earmarked reserves of £11.5m which was £1.1m above the revised estimate. The adequacy of reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

Housing Revenue Account (HRA)

3.3.2 The HRA year end position was a surplus of £6.3m against a revised forecast of £4.9m. As at 31 March 2020 the HRA working balance was £24.7m. This was £6.2m higher than expected due to slippage in the capital programme but this will be spent during 2020/21. The level of reserves is reviewed annually. The HRA has a 30 year Business Plan which is showing as affordable with the required estimated resources available to meet the plan. The central government imposed rent restrictions have been lifted from 2020/21 onwards and rents will be increased in line with the guidelines in place, providing further financial capacity to support the business plan.

3.3.3 The Section 151 Officer is satisfied that the Council's 2019/20 financial outturn for both General Fund and HRA, does not present any material uncertainties regarding the Council's ability to continue as a going concern.

Projected Financial Position

- 3.4.1 The Medium Term Financial Plan (MTPF) for 2020/21 to 2024/25 was approved by Members in February 2020. The forecast was for a small surplus of £16k for 2020/21 with deficits of £700k in future years. A savings action plan identifying a programme of initiatives designed to eliminate the forecast deficits over the life of the MTPF was included in that report.
- 3.4.2 A revised forecast deficit of £3.2m for 2020/21 was reported to Cabinet in July. Since then we have received further government grant and are making a claim under the governments income compensation scheme which should reduce this deficit to below £1m. It is hoped to identify further savings in the remaining months of this year but a shortfall of this magnitude can be met from reserves.
- 3.4.3 The Government announced a package of financial support for local authorities in July 2020 one element of which was the income compensation scheme where losses from sales, fees and charges over and above the first 5% of planned income would be compensated by Government by 75p for every pound lost. It also announced that it will allow council tax and business rates collection fund deficits to be repaid over three years instead of one. These provisions, together with the Government's stated commitment to support public services through the pandemic, provide assurance that the Council will be able to manage the financial challenge in the medium term.
- 3.4.4 The Council's Section 151 Officer made a formal statement in February 2020 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the Medium Term Financial Plan. We have revisited the underlying assumptions and plan in the light of the challenges presented by Covid-19 and whilst the Council will have to use its reserves to achieve a balanced budget, we are satisfied at this stage that this is achievable. We will continue to review the 2020/21 budget and

ensure our medium term plan is updated as part of our 2020/21 budget preparations to reflect any significant changes. At this stage we are satisfied that the Council's forecast financial position does not present any material uncertainties regarding the Council's ability to continue as a going concern.

Balance Sheet as at 31 March 2020

3.5.1 The Council's net assets amounted to £323.7m and usable reserves totalled £47.2m. We are satisfied that there are no material liabilities or underlying issues regarding the strength of the Council's balance sheet which present any material uncertainties regarding the Council's ability to continue as a going concern.

Cash Flow

3.6.1 The Council maintains short and long term cash flow projections, and manages its cash, investments and borrowing in line with the Council approved Treasury Management Strategy. As at the 31 March 2020 the Council has long term borrowing commitments of £125.4m, held £28.1m in short term investments and had £12.6m in Cash and Cash Equivalents. The Council has adequate financial resources to meet its immediate financial obligations. We are satisfied that there no significant issues regarding the strength of the Council's underlying cash flow which present any material uncertainties regarding the Council's ability to continue as a going concern.

Governance Arrangements

3.7.1 The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the Head of Paid Service, the Monitoring Officer and the Section 151 officer in addition to the current political arrangements. An overview of this governance framework is provided within The Annual Governance Statement.

3.7.2 Whilst it is not possible to provide absolute assurance the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness. There are no plans for the Council to be reorganised or dissolved and we expect to operate under the current framework in the near future. We are satisfied that there are no significant issues regarding the Council's governance framework which present any material uncertainties regarding the Council's ability to continue as a going concern

The External Regulatory and Control Environment

3.7.3 As a principal local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for the Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by the external auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

3.7.4 The provisions in the Code on the going concern requirements reflect the economic and statutory environment in which local authorities operate. We are satisfied that there are no significant issues regarding the external regulatory and control environment which present any material uncertainties regarding the Council's ability to continue as a going concern.

Material Uncertainties

3.8.1 The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Council's ability to continue as a going concern.

3.8.2 Economic uncertainty and difficulties in attaching weight to previous market evidence for comparison has impacted on valuers being able to inform opinions of value at 31 March 2020. In accordance with RICS guidance and in common with other local authorities the property valuations on our land and buildings have been reported by our internal valuer on the basis of 'material valuation uncertainty'. These valuations therefore have less certainty and should be viewed with a higher degree of caution than what would normally be the case. This has been disclosed in our 2019/20 accounts for completeness, as under the Code of Practice on Local Authority Accounting these assets are required to be disclosed at valuation. There is a statutory override in place though which means that any valuation movements do not affect the cost to tax payers or useable reserves. There are no indications from our understanding of the local property market or the properties we hold that this is a significant medium term issue for the Council.

3.8.3 We are satisfied that there are no material uncertainties which, under the Code of Practice on Local Authority Accounting framework, represent significant issues regarding the Council's ability to continue as a going concern.

3.9 Conclusion

3.9.1 It is therefore considered that the Council remains a 'going concern' and the accounts for 2019/20 have been appropriately prepared on this basis. This assessment by the Council's Section 151 Officer in support of presenting the Accounts for approval, provides assurance to the Council's external auditor.

4.0 **Audited Statement of Accounts 2019/20**

4.1 There were no significant changes introduced to the requirements for presentation of the Statement of Accounts in 2019/20.

4.2 The Statement of Accounts 2019/20 has been audited by the Council's External Auditors, Mazars.

4.3 Some minor changes have been made to the Statement of Accounts in order to address issues identified during the audit. However, the overall financial position remains the same as that reported to Cabinet on 9th June 2020.

5.0 **Report to Those Charged With Governance**

5.1 Each year the appointed auditor is required to "communicate audit matters to those charged with Governance", namely this committee. The Auditor will present 'the Report to those Charged with Governance'. The report gives details of any adjustments that had to be made to the accounts following the audit and also includes the audit opinion and value for money conclusion.

5.2 The Auditor's report is included as **Annexe 2**. The Auditor will present the report and answer any questions.

6.0 **Management Letter of Representation**

6.1 The Council's auditors are required to obtain written representations from management in respect of various matters relating to the accounts in the form of a 'Letter of Representation'.

- 6.2 The Management Letter of Representation must be prepared by the Council's Responsible Financial Officer after having made appropriate enquiries of other officers. This Committee, 'as those charged with governance', must acknowledge their collective responsibility for the compilation of the financial statements and consider the adequacy of the letter.
- 6.3 A copy of the letter is included as **Annexe 3** and provides representations in respect of fraud, compliance with laws and regulations, contingent liabilities, related party disclosures, and post balance sheet events.

7.0 **Recommendations**

- 7.1 That the Committee approves the Statement of Accounts for 2019/20.
- 7.2 That the Committee receives the Report to those Charged with Governance.
- 7.3 That the Committee approves the Management Letter of Representation.

8.0 **Reason for Recommendations**

- 8.1 To comply with statutory requirements

H FOX
ACTING CHIEF FINANCE OFFICER

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
Helen Fox	01246 936273/helen.fox@chesterfield.gov.uk
Background documents None	
Appendices to the report	
Annexe 1	Statement of Accounts 2019/20
Annexe 2	Audit Completion report 2019/20
Annexe 3	Management letter of representation 2019/20