

THE FINAL 2019/2020 FINANCIAL REPORT AND AUDIT COMPLETION REPORT

REPORT OF THE TREASURER



For Approval

1. PURPOSE OF REPORT

1.1 The purpose of this report is to:

- i) present Mazars' Audit Completion Report; and
- ii) to enable Members to approve the final 2019/2020 Financial Report (including the 2019/20 Statement of Accounts).

2. RECOMMENDATIONS

2.1 It is recommended that Members;

- i) consider the matters raised in Mazars' Audit Completion Report detailed in Appendix A;
- ii) note that the Chairman will sign the Letter of Representation attached at Appendix B; and,
- iii) approve the final 2019/20 Financial Report attached at Appendix C, which incorporates the changes agreed with Mazars.

3. BACKGROUND

3.1 In accordance with the Accounts and Audit Regulations 2015, updated for (Coronavirus) (Amendment) regulations 2020 all Local Authorities were required to produce draft annual Statement of Accounts by 31st August 2020. Those regulations have temporarily relaxed the previous deadlines for producing the draft accounts and completion of final audited accounts.

3.2 The Financial Report represents the Authority's financial position for 2019/20 in a specified format and reflects the Outturn Strategy previously approved by the Authority.

- 3.3 The Authority completed the draft accounts on the 19 June 2019, however, owing to COVID 19 it was not possible to report to Audit and Governance Committee. The document was then be subject to review by the external auditors - Mazars.

4. THE 2019/20 FINANCIAL REPORT

- 4.1 The Financial Report reflects the approved outturn strategy and there is a comprehensive financial update elsewhere on the agenda. The Financial Report is attached at Appendix C and in summary provides the following information: -
- i) Authority Membership
 - ii) Narrative Report
 - iii) Statement of Responsibilities for the Statement of Accounts
 - iv) Statement of Accounts
 - v) Group Statement of Accounts
 - vi) Annual Governance Statement
 - vii) Independent Auditor's Report
 - viii) Glossary of Terms
- 4.2 The narrative report provides an explanation of the Authority's overall financial performance for 2019/20, details the year-end financial position for 2019/20 and outlines the impact of the current economic climate on the Authority's ongoing financial position. The report also provides a guide to the most significant matters reported in the Statement of Accounts including an explanation of the purpose of each of the core statements.
- 4.3 One of the key statements is the Balance Sheet which comprises two main balancing parts, Net Assets and Total Reserves, which represents the Authority's financial position as at the 31st March 2020.
- 4.4 The Net Assets section of the Balance Sheet shows the Authority's assets including Property, Plant and Equipment, Investments and Debtors and liabilities including Short and Long-term Borrowing and Creditors. The Authority's Balance Sheet reports negative Net Assets (i.e. net liabilities) and this is because of an accounting requirement in relation to pensions. This requires authorities to report the total pension liability if this was to be paid out in full as at 31 March 2020 i.e. if all employees and former employees drew down their current full pension entitlement as at 31 March 2020. In practice this situation would never arise and contributions to the pension schemes are adjusted over a period of time to mitigate the liability and are included as part of the budget setting process. For the Fire Fighters

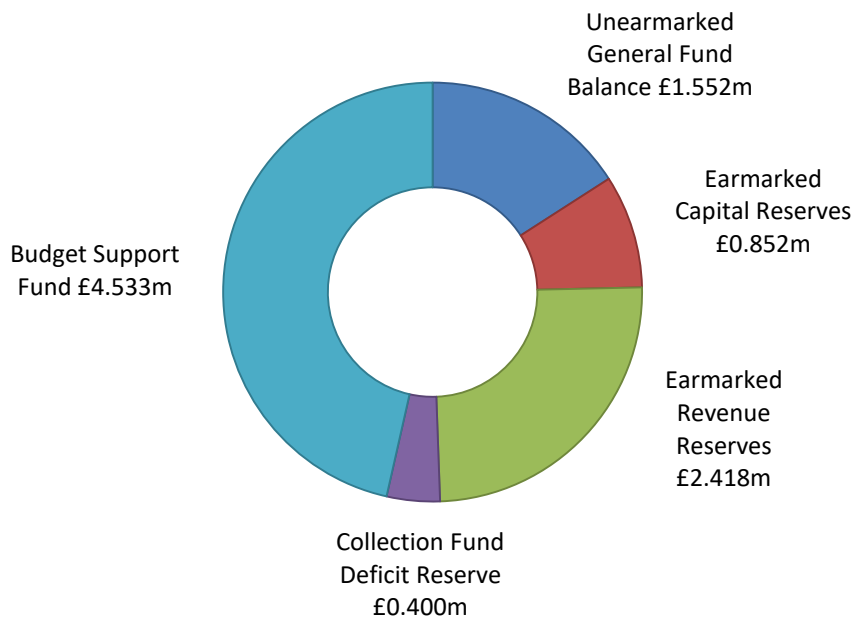
Pension Scheme the contributions include “Pension Top-up Grant” paid by the Government.

4.5 The Total Reserves section of the Balance Sheet is made up of Usable and Unusable Reserves. Unusable Reserves cannot be used to support services and include notional accounting gains and losses. These accounting gains and losses are referred to as unrealised. Included within Unusable Reserves is a negative Pension Reserve offsetting the pension liability outlined above.

4.6 Usable reserves are those which the authority can utilise to support future service provision. The Usable Reserves as at 31 March, 2020 reflect the review of risks and reserves undertaken as part of the 2020/21 budget process and consist of the following key areas:

- **Unearmarked General Fund Balance £1.552m** – this reserve is maintained to meet unforeseen circumstances which might arise the value of this reserve reflects the Authority’s assessment of a range of financial risks which may occur over the next four years.
- **Budget Support Fund £4.533m** – this reserve is earmarked to manage potential financial risks in 2020/21 and future years arising from a range of potential changes to future funding and the costs of providing services. There is also a risk that pay awards are higher than forecast, or an increase in employers pension contributions. As detailed in the Medium Term Financial Strategy report (elsewhere on the agenda) it is recommended that part of these reserves are used to support the budget in 2021/22 and address the forecast Collection Fund deficit.
- **Council Tax Deficit Reserve £0.400m** – the COVID pandemic will increase the number of households eligible for local Council Tax Support and this will reduce the Council Tax Income received by the Authority for 2020/21. National accounting regulations delay the impact of this shortfall until 2021/22 and this reserve is designed to protect the Authority’s financial position if the Government does not provide grant funding to support FRS’s, which will all face these income losses.
- **Earmarked Revenue Reserves £2.418m** – these resources are earmarked to fund a range of one-off commitments and initiatives. Further details are provided in note 23 (page 50) of the Financial Report
- **Earmarked Capital Reserves £0.852m** – these resources are allocated to fund the approved Asset Management Plan.

Analysis of Usable Reserves as at 31 March 2020 – Total £9.755m



5. **MAZARS AUDIT COMPLETION REPORT**

5.1 A copy of the Audit Completion Report (ACR) is included at Appendix A. However, it should be noted that whilst the External Auditors have substantially completed their work the audit is not complete. If required an update in relation to any outstanding matters will be reported in a follow-up letter prior to the auditor's report being signed. The external Auditors will be present to explain the ACR and answers any questions.

5.2 As Members will be aware the purposes of the ACR are:

- to share information to assist both the auditor and those charged with governance (i.e. Members of the Audit and Governance Committee) to fulfil their respective responsibilities;
- to provide constructive observations arising from the audit process to those charged with governance;
- to ensure as part of a two way communication process the external auditors, gain an understanding of the attitude and views of those charged with governance at the Council of internal and external operational, financial, compliance and other risks which might affect the accounts, including the likelihood of those risks materialising and how they are managed; and,

- to receive feedback from those charged with governance on the performance of the engagement team.

- 5.3 Any accounting adjustments or misstatements are reported within the ACR.
- 5.4 A small number of disclosure amendments were identified by the Auditor during the audit and it was agreed to amend the Accounts to reflect these issued detailed in Section 4 (page 12) of the ACR.
- 5.5 The Auditor identified two proposed changes which it is recommended not to implement as these issues are not material in accounting terms and therefore do not impact on the position reported in the accounts, or the level of General Fund Balances.
- 5.6 The issues and the reason it is proposed they are not implemented are detailed in the table below and also in the Letter of Representation attached at Appendix B to this report. The detail below has been discussed with Mazars and they will issue an unqualified opinion on the basis of the information provided in the Letter of Representation. Members need to formally consider these issues and my recommendation that these issues do not need to be amended.

Issue not Amended	Reasons for not Amending
Unused COVID-19 Grant recognised as Revenue Grants Receipts in Advance instead of a Ring- Fenced Reserve.	This has not been amended as it is a Balance Sheet category error and amending would not change the financial position of the Authority.
Loan interest payable for second half of 2019/20 was debited from bank in March 2020, however, due to COVID-19 lockdown and not being able to access records, it was shown as a reconciling item on the bank reconciliation	If adjusted it would have reduced the Authority's reserves at 31 March 2020, the decision to adjust or not adjust does not impact on the Authority's current financial position.

- 5.7 Key positive issues reported in the Audit Completion Report include:
- confirmation that the draft accounts were received on time and were of a good quality and that the supporting working papers were also of a good quality;
 - that Mazars anticipate issuing an unqualified opinion of the statement of accounts; and
 - that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

6. **CONCLUSIONS**

- 6.1 The Audit of the 2019/20 accounts will be complete before this meeting. Any issues will have been reported as part of the ACR, or will be included in the update letter, which includes specific issues to be considered before approving the final Financial Report before 30 November 2020 statutory deadline. The recommendations to this report enable Members to finalise the reporting arrangements for 2019/20.

CHRIS LITTLE
TREASURER