

<b>Subject:</b>	<b>Audited Statement of Accounts 2020/21</b>		
<b>Date of Meeting:</b>	<b>28 September 2021</b>		
<b>Report of:</b>	<b>Acting Chief Finance Officer</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Jess Laing</b>	<b>01273 295113</b>
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<b>Ward(s) affected:</b>	<b>(All Wards)</b>		

Note: The special circumstances for non-compliance with Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (as amended), (items not considered unless the agenda is open to inspection at least 5 days in advance of the meeting) were that there were a number of queries in relation to the external audit of the accounts requiring resolution before the audit could be concluded and the final accounts submitted for approval.

## **FOR GENERAL RELEASE**

### **1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report provides information about the audit of the council's 2020/21 Statement of Accounts and recommends approval of the 2020/21 audited accounts and the Letter of Representation on behalf of the council. The accounts should be viewed alongside the council's Annual Governance Statement (AGS) which is also approved by the Audit & Standards Committee.
- 1.2 Under the Accounts and Audit Regulations 2015, the council's accounts for 2020/21 must normally be approved by Members by the 31 July. However, due to the impact of the pandemic, the statutory deadline for this year only has been moved to 30 September 2021. A further modification also means that the timeline for the auditor's Value for Money opinion has been deferred to December 2021. Under the council's constitution, the Audit & Standards Committee is charged with the responsibility of the approval of the accounts.
- 1.3 The council's external auditors for 2020/21 are Grant Thornton who are required to give assurance that the accounts are free from material misstatement and to report significant matters arising from the audit. The audit is also concerned with aiding continual improvement in the presentation and transparency of the accounts. Grant Thornton will be presenting their findings to this Committee through the Audit Findings Report (AFR) elsewhere on this agenda, after which they will normally be able to issue their audit opinion and the accounts can be formally published subject to the Committee's approval.
- 1.4 This report presents the updated 2020/21 accounts following the outcome of the audit process. It outlines any amendments made to the accounts and provides assurances in relation to the preparation of the accounts. It also informs the committee of the outcome of the public inspection of the accounts. Copies of the final accounts are available on-line and are included at Appendix 3.

## **2. RECOMMENDATIONS:**

That the Audit & Standards Committee:

- 2.1 Notes the findings of the auditor (Grant Thornton) in their Audit Findings Report (AFR). The AFR is a separate item on this agenda.
- 2.2 Notes the results of the public inspection of the accounts (Section 5).
- 2.3 Approves the Letter of Representation on behalf of the council (Appendix 1).
- 2.4 Approves the audited Statement of Accounts for 2020/21 (Appendix 3).
- 2.5 Delegates authority to the Acting Chief Finance Officer to make any final wording changes and accounting adjustments following the conclusion of any outstanding audit queries provided these are not material to the accounts.

## **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
- 3.2 It is a requirement that the annual accounts be prepared as soon as practicable after the end of the financial year and considered and approved by a resolution of the committee charged with governance or the Full Council by the specified statutory deadline. Therefore, the accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit. The statutory deadline is normally 31 July but due to the impact of the pandemic, for this year only the deadline has been changed to 30 September 2021. The opinion on the Authority's arrangements for Value for Money has also been deferred and is due in December 2021.

### Format of the Accounts

- 3.3 Clearly, local authority accounts are not viewed from a commercial perspective, for example, in terms of an authority's attractiveness for possible merger or acquisition. However, local authorities are viewed in terms of their financial resilience, effective financial management and general viability (going concern). The latter being particularly relevant given the financial impact of the pandemic on local authorities. The purpose of the accounts therefore is to provide information to a wide range of stakeholders and the general public about the financial position, financial performance and cash flows of the council and to provide answers to basic questions such as:
  - What did the council's services and capital programme cost in 2020/21?
  - Where did the money come from?
  - What does the council own?
  - What commitments and liabilities does the council have and what provisions and reserves has the council set against these?
  - What amounts were due and what was owed at the end of the financial year?
- 3.4 In accordance with the Accounts and Audit Regulations, the accounts include:

- The Narrative report;
  - Statement of Responsibilities;
  - Core financial statements (Comprehensive Income and Expenditure Statement (CIES), Movement in Reserves Statement (MiRS), Balance Sheet and Cash Flow Statement);
  - Supplementary statements (Housing Revenue Account and Collection Fund);and
  - Notes to the accounts.
- 3.5 The narrative report aims to offer interested parties a more readable guide to the most significant matters reported in the accounts. A brief commentary on the key aspects of the 2020/21 accounts is included in Appendix 2 to this report.
- 3.6 The statements would normally comprise both “Single Entity Accounts”, which are in respect of wholly council-controlled activities, and “Group Accounts” in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. The requirement for the preparation of Group Accounts in 2020/21 has been considered for the Housing Joint Venture collaborative arrangement with Hyde Housing and it was concluded that there were no material transactions in the 2020/21 financial year that would have required the compilation of Group Accounts. The preparation of Group Accounts in 2021/22 will need to be considered again in this regard.
- 3.7 Grant Thornton have substantially completed their work on the audit of the accounts and will be reporting their findings separately to this Committee through the Audit Findings Report ( AFR). Following this report and resolution of any outstanding audit matters, Grant Thornton will normally be able to issue their audit opinion and the accounts can be formally published. Some minor changes to narrative or financial statements may be required following the conclusion of outstanding audit queries and, in this respect, a delegation to the Acting Chief Finance Officer is sought to enable him to enact these changes provided they are not material to the accounts. Any material change would need to be reported back to the committee for consideration.

#### Preparation of the Accounts

- 3.8 The council is required to prepare its accounts on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2020/21 accounts cover the period 1 April 2020 to 31 March 2021. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2020/21 accounts are in line with the requirements of the Code.
- 3.9 There were 4 follow up actions from audit recommendations contained in the external auditor’s AFR for 2019/20 requiring consideration for the preparation of the 2020/21 accounts.

<b>2019/20 AFR Recommendation</b>	<b>Action taken for 2020/21</b>
<p><b>PFI Accounting Model</b></p> <p>We carried out testing on the PFI models in order to gain assurance over the updating of the models during the year to produce materially correct accounting notes. We identified an error in disclosures where the PFI models had not been correctly updated in line with PFI accounting concepts to produce the correct disclosures of future liabilities. The finance team agreed this was an error, but as it was not material they have not adjusted the accounts disclosure for this amount. We recommended that management should ensure that checks are put in place around the updating of PFI models in line with PFI accounting concepts.</p>	<p>As recommended, PFI model checks were carried out before finalising the PFI accounting entries for 2020/21.</p>
<p><b>Financial Instruments – prior year error corrections</b></p> <p>The finance team have picked up 2 material prior period errors in the presentation and disclosure of the Financial Instruments note. The finance team made corrections for these errors in the comparatives for the 2019/20 accounts. The audit team have found it difficult to understand changes made to prior year figures and to check these to clear working papers. We recommended that where the Authority does need to make material prior period corrections to Notes or primary statements, these should be supported by robust working papers and be counter-reviewed by another member of the finance team to check the accuracy and the trail from the prior year disclosure to the corrected amounts.</p>	<p>As per the recommendation, the 2020/21 financial instruments disclosure note was supported by a robust, comprehensive and detailed working paper. There were no material adjustments to the prior year (2019/20) financial instrument disclosures in 2020/21.</p>
<p><b>Input of PPE valuation entries into the Fixed Asset Register</b></p> <p>In our testing of revaluations made during the year and the accuracy of the input of these into the asset register we identified four input errors. These understated the valuation of land and buildings by £3,351k. As this amount was below our performance materiality this was not adjusted in the accounts. We recommended that a further internal check or reconciliation is performed between the valuation reports and fixed asset register prior to posting the revaluation journals.</p>	<p>As recommended, additional checks were put into place to review the valuation reports and fixed asset register before posting the revaluation journals.</p>
<p><b>Leases disclosures -future minimum lease payments under operating leases</b></p> <p>We carried out testing on the leases future minimum lease payments disclosure. This testing identified an error would result in the disclosure of future minimum lease payments being reduced by £3.770m. The error occurred where the Logotech Property, Plant &amp; Equipment &amp; Leases system was identifying the incorrect element</p>	<p>As recommended, additional checks were put into place to review and update the relevant information to ensure the disclosure is</p>

<p>under minimum lease payments within the MS Excel report used to populate the disclosure. We recommended that management should ensure the system for compiling the disclosures of future minimum lease payments is reviewed and updated to ensure that the disclosure is accurate and in line with the underlying lease agreements.</p>	<p>accurate.</p>
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- 3.10 For 2020/21 there were no significant changes in reporting requirements under the Code of Practice.
- 3.11 The accounts are prepared by appropriately qualified and trained officers who have undertaken appropriate training on the requirements for preparing local government accounts. Finance officers involved in the preparation of the accounts attend regular training and/or workshops to ensure an up to date knowledge, including latest accounting code changes.
- 3.12 Officers have made reference to CIPFA’s practitioner’s guidance notes, disclosure checklists and other technical guidance in preparing the accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the accounts, with Grant Thornton over the application of the Code to the 2020/21 accounts.
- 3.13 In preparing the accounts, the council makes a number of critical judgements, accounting estimates and assumptions; the details are disclosed in Note 3 of the accounts. Further background information regarding these estimates and critical judgements was provided to all Committee members on 3 September 2021 via an email which enclosed a document entitled ‘Informing the Audit Risk Assessment 2020/21’ which provided assurance statements from officers.
- 3.14 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers within Finance. Following this review, the accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review formed part of the working papers produced for Grant Thornton.
- 3.15 During the accounts audit process, officers liaised closely with Grant Thornton in respect of audit queries and worked closely to ensure successful resolution of these queries as expediently as possible. During the audit of the 2019/20 accounts, there have been no disputes between council officers and Grant Thornton in relation to the required amendments to the accounts.

#### Audit of the Accounts

- 3.16 Grant Thornton has completed the audit of the council’s accounts and reports its findings and recommendations in its Audit Findings Report which forms a separate item of this committee agenda. Grant Thornton are responsible for:
- Forming an opinion on the financial statements;

- Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. This opinion has been deferred to December 2021 by regulation.
- 3.17 Compilation of the financial statements relies on data extracted from the financial systems, including those systems which interface into the financial system. It is therefore important for Grant Thornton to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them.
- 3.18 The council has considered the repositioning of certain statements and the disclosure changes included in the auditor's Audit Findings Report. The council's financial statements have been amended for these changes and are free of material misstatements, including omissions.
- 3.19 The council has also considered the unadjusted misstatements set out in the Audit Findings Report and attached as Appendix A to the Letter of Representation. Officers recommend not adjusting the financial statements for these misstatements and disclosure changes as they are immaterial to the financial results of the council and its financial position at the year end.
- 3.20 The auditor highlights an outstanding query in relation to the valuation of Council Dwellings which may result in a material difference (upwards). The council has relied on external expertise in the valuation of these assets and has applied the valuations advised by professional valuer, Savills, to the Council Dwellings on the Fixed Asset Register. The auditor's own valuation adviser has suggested a different valuation approach and the auditor will therefore seek further evidence from Savills to understand this difference. If the auditor considers that a material difference exists, the committee are recommended to accept the auditor's valuation and amend the accounts accordingly.
- 3.21 The AFR for 2020/21 states that an unqualified audit opinion is expected to be issued and that the council has proper arrangements in place to secure value for money in its use of resources.

#### Annual Governance Statement

- 3.22 It is a requirement that an Annual Governance Statement (AGS) is approved annually either before or alongside approval of the financial statements.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 Under the Accounts and Audit Regulations 2015, as amended for the impact of the pandemic, the council's 2020/21 accounts are to be approved by the Chief Finance Officer no later than 31 August and following the audit process are to be approved by Members no later than 30 September. Under Brighton & Hove City Council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 4.2 After the accounts have been made available for public inspection, alterations to the accounts may only be made with the consent of the external auditor, Grant Thornton. The alterations in this case have received their consent.

- 4.3 Regarding the outstanding audit query relating to the valuation of Council Dwellings, the council could elect not to adjust the accounts if a material difference is found to exist by the auditor. This risks the auditor issuing a qualified or modified opinion on the accounts which could have reputational impact. The committee are therefore recommended to adjust the accounts before publication if the auditor finds a material difference.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 Members of the public, in accordance with the Accounts and Audit Regulations 2015, are granted access for a period of 30 working days to the council's unaudited accounts and are invited to enquire on any aspect of these accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the accounts with Grant Thornton.
- 5.2 The unaudited accounts were completed before the statutory deadline and therefore an extended period of public inspection was possible. The accounts were made available on the council's web site from 1 August to 13 September. The council received one enquiry as part of the public inspection process.

## **6. CONCLUSION**

- 6.1 Grant Thornton have carried out their audit of the 2020/21 accounts and have reported their findings and recommendations arising from the audit of the accounts as a separate item on this agenda. The main changes resulting from the audit are included in the Audit Findings Report to ensure members are aware of the changes to the accounts agreed with Grant Thornton prior to their approval.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 The financial implications are included in the body of the report.

*Finance Officer Consulted: James Hengeveld*

*Date: 20/09/21*

### Legal Implications:

- 7.2 The legal framework for approving the council's statement of accounts is provided by regulation 9 of the Accounts and Audit Regulations 2015 (statutory instrument 2015/234), as amended by the Accounts and Audit (Amendment) Regulations 2021 (statutory instrument 2021/263).
- 7.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. At Brighton & Hove Council, the Audit & Standards Committee is the designated committee for this purpose.

*Lawyer Consulted: Liz Woodley*

*Date: 20/09/21*

#### Equalities Implications:

- 7.4 There are no equalities implications arising directly from this report. The accounts are a statutory publication and were made available for public inspection on the council's website and on request. Information on the accounts will, as far as possible, be provided in a manner that meets the needs of those requesting information.

#### Sustainability Implications:

- 7.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's financial control framework and its ability to demonstrate sound financial management could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability.

#### Any Other Significant Implications:

- 7.6 The quality of a public authority's accounts is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the accounts present fairly the financial position of the council.

### **SUPPORTING DOCUMENTATION**

#### **Appendices:**

1. Letter of Representation
2. Commentary on the Accounts
3. Statement of Accounts 2020/21

#### **Background Documents**

1. Audited Statement of Accounts 2020/21 and associated working papers