

REPORT TITLE: DRAFT ANNUAL FINANCIAL REPORT 2019/20

28 JULY 2020

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Risk

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WARD(S): ALL

PURPOSE

This report highlights the key issues arising from the production of the Draft Statement of Accounts for the year ended 31 March 2020.

It is important that Members consider the key issues contained in the draft financial statements and their supporting notes. Members are requested to raise any matters of detail with the Corporate Head of Resources in advance of the meeting.

RECOMMENDATIONS:

That the Audit and Governance Committee:

1. Note the report in respect of the council's Draft Statement of Accounts for 2019/20.
2. Take the opportunity to discuss the content of this report and ask any questions regarding the Draft Statement of Accounts 2019/20 with officers present at the meeting.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 *Your Services, Your Voice* - The preparation of the Annual Financial Report is fundamental to open and transparent accountability for public finances. Ensuring strong financial reporting and transparent stewardship of public funds underpins the council's ability to deliver all its outcomes but in particular the priority to ensure stable council finances.

### 2 FINANCIAL IMPLICATIONS

- 2.1 The planned fee for the audit of the 2019/20 accounts is £43,379. The final fee for the equivalent audit of the 2018/19 accounts is £44,879 (this includes a scale fee variation of £1,500 for which we are awaiting confirmation from Public Sector Audit Appointments that this is appropriate).
- 2.2 EY have already raised with officers the likely increase to fees for work they consider necessary in their assurance work on the Annual Financial Report 2019/20. It is not yet known how much any additional fee will be.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Local authorities in the UK are required to prepare their accounts in accordance with 'proper (accounting) practices' as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code). The Code specifies the principles and practices of accounting, required to prepare financial statements that give a true and fair view of the financial position and transactions of a local authority.
- 3.2 The Audit and Accounts Regulations 2015 require an authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and include a statement reporting on the review alongside the Statement of Accounts.
- 3.3 The necessity to conform to these Regulations and the Code is recognised accurately in this report.
- 3.4 There are no direct legal implications.

### 4 WORKFORCE IMPLICATIONS

- 4.1 None

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

### 6 CONSULTATION AND COMMUNICATION

6.1 A public notice is published to inform interested parties of their rights to inspect the statement of accounts and records relating to them. The public notice also details how to access this information and how to ask questions of and make objections to the council's external auditor. This will be published the day following publication of the unaudited Annual Financial Report.

## 7 ENVIRONMENTAL CONSIDERATIONS

7.1 None

## 8 EQUALITY IMPACT ASSESSEMENT

8.1 None arising from the content of the report. However, officers will have regard to the considerations as set out in the Equalities Act 2010 when deciding whether an Equality Impact Assessment will be required following any specific recommendations or future decisions.

## 9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required

## 10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<p><i>Legal</i> Failure to produce financial statements in compliance with statutory deadlines.</p>	<p>A comprehensive project plan for the delivery of the accounts closedown is used to ensure the Statement of Accounts and Annual Financial Report are produced by the statutory and audit deadlines.</p>	
<p><i>Reputation</i> The financial statements receive an adverse external audit opinion</p>	<p>The statements are prepared in accordance with the CIPFA code of practice.</p> <p>Accounts staff attend regular public sector accounting workshops delivered by EY and CIPFA.</p> <p>Regular engagement with external audit on potential issues identified.</p>	

## 11 SUPPORTING INFORMATION:

### 11.1 **Changes to statutory timetable for 2019/20 accounts**

1.1.1. The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) extend the statutory audit deadline for 2019/20 for all local authorities, apart from health service bodies. The publication date for audited accounts has moved from the 31 July to 30 November 2020.

1.1.2. To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June has been removed. Instead, local authorities must commence the public inspection period on or before the first working day of September 2020. This means that accounts that must be confirmed by the responsible finance officer must be published by 31 August 2020 at the latest.

### 11.2 **Changes to the planned audit**

1.2.3. Following the publication of the amended regulations for the 2019/20 accounts we agreed with EY that the external audit, originally scheduled for three weeks in June) should be moved to the five weeks commencing on 7 September. This allows the council the maximum flexibility to produce accounts with the latest information on the effects of COVID; whilst also moving our audit to a time when EY has increased resource to deliver it.

### 11.3 **Effect of COVID-19 on the accounts production and publication**

11.3.1. The draft accounts appended to this report are based on asset valuations to 31 March 2020. The Council commissioned an external valuer for these but when we received their report they noted 'material uncertainty' due to the COVID-19 pandemic and its impact on markets. This isn't unique to our authority - the Royal Institution of Chartered Surveyors (RICS) issued guidance for their regulated members; suggesting standard wording for valuers to use in their reports when they determine there is material uncertainty. This wording includes the following:

11.3.2. *"Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review."*

11.3.3. We have been liaising with EY throughout the accounts production (as material uncertainty in the valuations is likely to result in auditors being unable to give an unqualified opinion) and working closely with our valuers, Wilks Head & Eve (WHE). We have commissioned WHE to undertake a market review in August to identify if there is any further evidence indicating that we may wish to revisit the asset values on our balance sheet. If any changes to the valuations are required, we will update the accounts before the audit commences in September.

11.3.4. In a change to the normal procedure, it is recommended that instead of formally publishing the draft accounts now (knowing the high likelihood that changes may be required) the draft accounts be published just prior to the 31 August deadline. This should minimise the number of audit changes.

## 12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 It is possible to publish the Draft Annual Financial Report once the unaudited Statement of Accounts has been certified by the Section 151 Officer. Formal publication is not recommended until closer to the statutory deadline as this will ensure that the accounts are giving as true and fair a view as possible, in light of the effect of COVID-19 on the council's balance sheet.

### BACKGROUND DOCUMENTS:-

#### Previous Committee Reports:-

None

#### Other Background Documents:-

None

### APPENDICES:

Appendix 1 - Draft (unpublished) Annual Financial Report