

27 September 2021

**Post Audit Statement of Accounts 2020/21, Annual Governance Statement
and Audit Findings Report**

Ward(s): All

Portfolios: All

Purpose: For Information

1. Aim

- 1.1 To present the post audit Statement of Accounts and position of the council as required under the Accounts and Audit (England) Regulations 2015.

2. Summary

- 2.1 This report presents the post audit Statement of Accounts for 2020/21 along with the summarised accounts and Annual Governance Statement.
- 2.2 The report also includes Grant Thornton's Audit Findings Report on the authority's accounts, including the council's letter of representation, which the council is required to provide to Grant Thornton, and is signed by the Chief Financial Officer and Chair of the Audit Committee.

3. Recommendations

- 3.1 Audit Committee are requested to:
1. Receive the audit findings report from Grant Thornton on their audit of the 2020/21 statement of accounts and consider the key messages (Appendix 1) and note that there have been agreed amendments made to the accounts during the audit. **(Appendix to follow).**
 2. Note and approve the post-audit Statement of Accounts for 2020/21 (Appendix 2) including the Annual Governance Statement.
 3. Note the summary of accounts (Appendix 3).
 4. Note, consider and endorse the letter of representation attached (Appendix 4).
 5. Agree that the Chair of the Committee signs and dates the accounts as required under the Accounts and Audit (England) Regulations 2015.
 6. Authorise the Chief Financial Officer (CFO) to distribute copies of the audited Statement of Accounts to partners and stakeholders alongside the Annual Governance Statement 2020/21.

4. Report detail – know

Headlines from the 2020/21 post audit Statement of Accounts

- 4.1 As at 31 March 2021 the post audit Statement of Accounts shows a net position of an underspend against budget of £0.453 million (shown on page 12 of Appendix 2 – post audit Statement of Accounts).
- 4.2 General fund services (including planned use of general reserves and transfers to and from earmarked reserves) has an overall surplus for the year of £3.284 million. This has resulted in net general reserves of £17.694 million at the end of the year.
- 4.3 The council has taken a leading role during the Covid-19 pandemic implementing a number of government policies. This has resulted in the council acting on behalf of central Government in providing grants, support for test and trace and infection control to local businesses. The combined total of this is £78.510 million (shown on page 22 of Appendix 2 – post audit Statement of Accounts). As the council was acting on behalf of central Government the grant income received by the council and payments made to businesses are classed as agent arrangements and have been removed from of the Statement of Accounts in line with accounting requirements. All other income and expenditure relating to Covid-19 is shown within the Statement of Accounts.
- 4.4 The audit process identified a number of adjustments affecting the council's accounts; and the audit findings report from Grant Thornton (Appendix 1) outlines these adjustments and disclosure amendments. Although none of these have an effect on general fund reserves, the post-audit of Statement of Accounts (Appendix 2) have been updated to correct these misclassifications and disclosures as follows:
- 4.5 Council Officers during the course of the audit identified a miscoding within the Comprehensive Income and Expenditure Statement (CIES) amounting to £16.601m in relation to Covid-19 business grants received during 2020/21. Expenditure had been inflated rather than reducing income and consequently has no impact on the net cost of services or general reserves.
- 4.6 Grant Thornton identified an error in relation to land valuations for schools whereby the valuer had incorrectly transposed land areas in their calculations. This only effected 5 out of 55 schools, and totalled £1.102m. This error had been corrected and has changed a number of tables within the Statement of Accounts including the balance sheet, although it has no impact on general reserves.
- 4.7 There were also a small number of other misclassification and disclosure changes which are included within the Audit Findings Report (Appendix 1) from Grant Thornton. These were all insignificant and had no impact on the level of reserves. These disclosures have been made within the Statement of Accounts and set out that the valuation used within the accounts are subject to material valuation uncertainty.
- 4.8 All the adjustments set out above are highlighted in yellow within the Statement of Accounts.

- 4.9 At the 8 July 2021 Audit Committee meeting members requested a change to the Annual Governance Statement (AGS) which was that the AGS include an expanded paragraph on the Walsall Proud Programme (WPP) governance arrangements as follows (please also see page 5 of the AGS included within Appendix 2):
- 4.10 “The Walsall Proud Programme Management Office (WPPMO) is responsible for the governance arrangements of all change activity and have established various governance forums, for example the Business Design Authority, Technical Design Authority and WPP Commercial Group as detailed in the AGS Framework, to provide oversight at specific points during the implementation of change. The transformation expertise of the WPPMO ensures there is no change without informed decision making as they are able to provide the Walsall Proud Board with assurance regarding the recommendations being made.”

Balance sheet performance

- 4.11 Financial indicators are used to identify key trends and highlight the current financial health of the authority. These indicators are also referred to as ratio analysis.
- 4.12 The position of current assets to current liabilities is an important indicator that effectively identifies the ratio of assets that could quickly be converted to cash in order to cover current liabilities. It is generally accepted that a ratio of 2:1 is the minimum an organisation should seek to achieve, however this can change depending on the sector the business operates in, but this level would normally indicate good cash flow performance and financial health.
- 4.13 The council's ratio for 2020/21 is 2.01:1, a decrease from 2.39:1 achieved in 2019/20. The decrease in this ratio is mainly as a result of a reduction in cash and cash equivalents as the council utilised cash balances as an alternative to borrowing to fund previous year's capital expenditure.
- 4.14 Another important ratio in understanding underlying trends in financial health is the comparison between long term assets and long term borrowing. This seeks to highlight the relationship between the borrowing used to purchase the council's property, plant, and equipment, which are then used to deliver the services of the council over a number of years. A ratio of 1:1 would be the minimum that would be expected, and would indicate that the council is receiving a benefit from the assets it has purchased that is in line with, or greater than, the repayment of borrowing incurred to fund those assets.
- 4.15 Walsall has achieved a ratio of 1.83:1 for 2020/21, a slight decrease from 1.86:1 achieved in 2019/20. This is a healthy relationship between long term assets and borrowing, indicating that the council is still receiving the benefit of assets that it has purchased where there is no longer any associated borrowing.
- 4.16 The council's balance sheet shows a negative net worth of £317.136 million. This is largely due to the deficit on the West Midlands Metropolitan Authorities Pension Fund.

- 4.17 Excluding the total net pension liability of £720.211 million the balance sheet shows a net asset balance of £403.075 million. This combined with the above ratios for liquidity and assets over liabilities demonstrate a sound financial position.
- 4.18 Since the introduction of the Academies Act 2010 the council has seen its asset base reduce by approximately £296m as a result of academy conversions, with these assets therefore no longer owned by the council. The loss of assets through academy transfers is a further reason that the council's balance sheet is reported as a negative net worth.

Looking forward

- 4.19 The going concern assumption is a fundamental principle in preparing financial statements. Under this principle, Walsall MBC is deemed to be a going concern for the foreseeable future. The statutory duties undertaken by the council and the method in which funding is raised and provided by central Government are set to continue.
- 4.20 There is no intention to cease trading or seek protection from creditors.
- 4.21 The council has a Medium Term Financial Strategy (MTFS) which is regularly reviewed with the medium term financial outlook updated to reflect the forecast financial position of the council going forward.
- 4.22 In addition to this the CIPFA Bulletin 01 – Closure of the 2017/18 Financial Statements issued in February 2018 sets out CIPFA's view on going concern as follows:
- 4.23 The provisions in the Code of Practice on the going concern 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.

Variance analysis

- 4.24 There have been a number of material changes to the funding received by the council during 2020/21 which were implemented nationally by central Government in response to the Covid-19 pandemic.
- 4.25 Note 17 to the statement of accounts provides an overview of the grant income that the council receives. The largest changes seen during 2020/21 were:
- 4.26 Covid-19 funding credited to the taxation and non-specific grant income within the CIES totalling approximately £52m, with a further £25m credited to services.
- 4.27 Housing benefits rent allowances grant reduced by approximately £8m as a result of less allowances being paid out and Dedicated Schools Grant increased by approximately £4m. However the majority of this grant is passed directly to schools.

- 4.28 Total capital grants increased by approximately £16m. This is mainly attributable to a decrease of approximately £9m for grants received from the Department for Education for school improvements, offset by an increase in Growth Deal grants of approximately £8m, a new grant received for Getting Building Fund totalling approximately £10m and a grant for M6 Junction 10 works of approximately £11m.

Performance management and risk management issues

- 4.29 The 2020/21 outturn provides a sound, stable financial foundation to affect service delivery and continue to drive service improvement. As part of the council's performance management system, managers are set many targets, one of which is to deliver their service targets within the cash limited budget. This has been demonstrated overall in 2020/21, although some services did overspend, with corrective action being taken as appropriate.

Value for Money

- 4.30 Audit Committee is presented with a Value for Money conclusion within the Audit Finding Report (Appendix 1) as it was last year. The result of this report is that Grant Thornton is proposing to issue an unqualified Value for Money conclusion.

Control Environment

- 4.31 All councils must produce annual accounts in line with the Accounts and Audit (England) Regulations 2015. The Accounts and Audit (Amendment) Regulations 2021, made as a result of Covid-19, have moved the date required for the Financial Statements to be considered and approved by the appropriate Committee of the council from 31 July to the 30 September following the end of the financial year.
- 4.32 In addition these regulations have moved the date the council is required to complete its draft financial statements from 31 May to 31 July following the end of the financial year.
- 4.33 The pre-audit financial statements were signed by the Section 151 Officer on 11 June 2021. This was significantly within the revised deadline of 31 July as provided for within the Accounts and Audit (Amendment) Regulations 2021.
- 4.34 The pre-audit draft financial statements were presented to Audit Committee at their meeting on 8 July 2021 as for information only as they were not required to be approved by Audit Committee. Given the extended timeframe put in place it was seen as best practice to present the draft unaudited Statement of Accounts to Audit Committee for initial review.

Assurance of Controls

- 4.35 The external audit of the financial statements commenced on 14 June 2021 by Grant Thornton. The audit has now being substantially completed with the audited financial statements and Audit Finding Reports being presented to Audit Committee for their approval at this meeting.

Strategic Risks/Annual Statements

4.36 As this report is reviewing performance over 2020/21 there are no associated strategic risks.

5. Financial information

5.1 There are no direct financial implications as a result of this report beyond those reported within Section 4.

6. Reducing Inequalities

6.1 Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public. The accounts will be available on request in different formats, for example, hard copy, soft copy via the web site, Braille and in different languages.

7. Decide

7.1 The Committee should consider Grant Thornton's Audit Findings Report (Appendix 1) that details the work and outcome of the audit and decide whether it is satisfied that the financial statements can be approved for publication.

8. Respond

8.1 Any issues or queries raised by Audit Committee in connection with the post audit Statement of Accounts have been requested by Council Officers in advance of the September 2021 Committee meeting to enable sufficient time to respond and provide Committee with assurance. This process does not preclude further queries and discussions at the September Committee meeting.

9. Review

9.1 The post audit Statement of Accounts has been audited. Any material issues that Grant Thornton have discovered during this audit process has been reported within the Audit Findings Report (Appendix 1). Any recommendations for improvement will be reflected in future years' accounts.

9.2 At the September Audit Committee members will also have the opportunity to consider the audited Statement of Accounts prior to approval.

Background papers

Various financial working papers, statutory and other guidance.

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