

Audit Committee – 23 November 2020

Post – Audit Statement of Accounts 2019/20 including Audit Findings Report

Summary of report

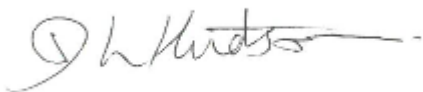
This report presents the audited Statement of Accounts along with a summary of these.

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.

Recommendations

Audit Committee are requested to:

1. Receive the audit findings report from Grant Thornton on their audit of the 2019/20 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.
2. Note and approve the post-audit statement of accounts for 2019/20 (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 2019/20.



Deborah Hindson
S151 Officer (Interim Executive Director, Resources and Transformation)
9 November 2020

Governance

Councils must produce annual accounts and an Annual Governance Statement (AGS) in line with the Accounts and Audit (England) Regulations 2015. In addition, the act requires that the S151 Officer and Chair of Audit Committee make accurate representations to their auditor in respect of the fair presentation of the accounts. The Committee is asked to approve the letter of representation attached (included within the ISA260 report at appendix 1). The regulations require the Statement of Accounts (SoA) and the AGS to be considered and approved by the appropriate Committee of the council, in this case the Audit Committee. This report considers the SoA. The AGS is contained within the SoA and there have been only very minor changes made to the draft reported to Audit Committee in July (these changes refer to changes in tense for example in relation to reporting dates).

Resource and Legal Considerations

As at 31 March 2020 the post-audit Statement of Accounts shows a net position of an under spend against budget of £0.291 million. General fund services, (including planned use of general reserves and transfers to and from earmarked reserves) has an overall deficit for the year of £1.259m. This results in net general reserves of £14.410m.

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:

Adjusted items:

- The council during 2019/20 took out a number of forward deals on loans totalling £54m. This was to convert previous internal borrowing for capital expenditure to external borrowing to ensure the council had sufficient cash flow in order to make a planned payment over to WM Pension Fund in April 2020. The monies for these loans were all received in April 2020.

Given that the council had committed to these deals (with accompanying trade confirmations), fixing the interest rates, and the unusually long time between trade date and settlement date, the council's interpretation of the guidance is that these deals qualify as recognition as forward contracts.

Grant Thornton's Technical Team reviewed the Council's recognition set out above and concluded that this interpretation was incorrect. Forward contracts should only be recognised when interest rates are below market rates, which they were not at the time the Council entered into these deals.

This changes a number of tables within the Statement of Accounts including the balance sheet. The balance sheet had been adjusted to reduce borrowing and debtors by £54m.

The council on the same basis as set out above for borrowing entered into a number of forward deals for investments in 2019/20 with the cash transaction taking place in April 2020, and accounted for these as forward deals.

These entries have also been reversed and also change a number of tables within the Statement of Accounts including the balance sheet. Investments and creditors have both been reduced by £12m.

These changes have no impact on general reserves, however they do change a number of tables within the Statement of Accounts.

Grant Thornton as part of their review of the timing and impact of Covid-19 have recommended that the council discloses an Emphasis of Matter in respect of property and pensions liability valuations.

There were also a small number of other misclassification and disclosure changes which are included within the audit findings report 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.

All the adjustments set out above are highlighted in yellow within the Statement of Accounts.

Non-adjusted items:

The council has recognised capital grant income related to expenditure classed as revenue expenditure funded from capital by statute (REFFCUS) totalling £23.216m on the face of the council's Comprehensive Income & Expenditure Account (CIES). The Code of Practice sets out that capital funding should be included in the corporate line within the CIES and not the service line.

This has not been amended by the council as management believe the current disclosure is more representative of the services financial position. Disclosing both capital income and expenditure against each service provides a better comparison of income and expenditure rather than disclosing these amounts within separate sections of the CIES. Grant Thornton are in agreement that this treatment does not significantly impact the financial position and understanding for the reader and does not have any impact on the council's reported net cost of providing services.

Changes to accounting policies

As reported to Audit Committee in July 2020 the accounting policy for Accruals of Income and Expenditure was amended to increase the deminimus from £2,500 to £10,000.

Identifying key trends

Balance Sheet Performance

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.

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.

The council's ratio for 2019/20 is 2.39:1, an increase from 1.68:1 achieved in 2018/19. The increase in this ratio is mainly as a result of an increase in cash and cash equivalents. This increase was made in preparation of an upfront pension payment made in April 2020. Further increases are as a result of repayments of temporary borrowing undertaken to fund a similar upfront pension payment made in April 2017 and a reduction in short term creditors. The council would therefore expect this ratio to improve again as further pension payment borrowing is repaid over the next 12 months.

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 councils 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.

Walsall's achieved a ratio of 1.86:1 for 2019/20, a slight decrease from 2.05:1 achieved in 2018/19. This indicates 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.

Plant, Property and Equipment – note 19

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 transfer of these schools, along with revaluation losses was potentially making it difficult for readers of the accounts to identify the council investment in other buildings and infrastructure.

During 2019/20 3 further schools transferred to academy status as set out in note 20 to the Statement of Accounts. The loss of assets through academy transfers since the adoption of the Academies Act in 2010 is one of the reasons that the council's balance sheet is reported as a negative net worth of approximately £174m.

Looking forward

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.

There is no intention to cease trading or seek protection from creditors.

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.

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:

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

There have been a number of material changes to the funding received by the council during 2019/20 which were implemented nationally by central Government.

Note 17 to the statement of accounts provides an overview of the grant income that the council receives. The largest change seen during 2019/20 was:

- Total revenue grants broadly remained the same however National Domestic Rate (NDR) Top Up reduced by approximately £9m as a result of changes to business rates baselines, Housing benefits rent allowances grant reduced by approximately £17m as a result of less allowances being paid out and Dedicated Schools Grant increased by approximately £5m. However the majority of this grant is passed directly to schools. Additionally a payment from Government for Covid-19 funding was received in late March 2020 totalling approximately £10m.
- Total capital grants increased by approximately £8m. This is mainly attributable to a decrease of approximately £8m for grants received from the Department for Education for school improvements, offset by an increase in Growth Deal grants of approximately £7m and a grant for M6 Junction 10 works of approximately £11m.

Interim Audit of General IT Controls

In preparation for the audit of the main financial statements external audit carried out their annual review of general IT controls. This highlighted a number of deficiencies which due to their nature are highlighted for Committee below, setting out action that was taken and providing clarity that these have been resolved. Substantive testing as part of the main financial statements did not identify any weaknesses in control in relation to the points set out.

- The audit highlighted 9 Oracle system administrators with Financial management responsibilities, which audit would not normally expect for the job roles the individuals occupy

A review has been undertaken which has clarified that the access for these 9 administrators is in line with the job roles that they carry out for Walsall Council, further reviews will be undertaken on a 6 monthly basis to ensure this continues to be the case. External Audit noted the outcome of this review and clarified that the Council can accept risks in accordance with it's own risk appetite like all organisations, however they set out that the report does need to articulate these risks to help auditors then target and set the appropriate level of substantive testing that is required in the wider year end audit. This finding therefore led to increased substantive testing as part of the main financial statements audit, however this increased testing did not identify any weaknesses or control issues in relation to this point.

- There are 9 end users from business and finance departments and 2 generic accounts who have access to critical functions.

As with the first finding a review has been undertaken which has clarified that the access for these 9 end users is in line with the job roles that they carry out for Walsall Council, further reviews will be undertaken on a 6 monthly basis to ensure this continues to be the case. Again External Audit noted the outcome of this review and used the findings to set the appropriate level of substantive testing that was required in the wider year end audit of financial statements. Again the substantive testing then undertaken as part of the main financial statements audit did not identify any weaknesses or control issues in relation to this point.

- Password settings in Oracle EBS do not comply with good practice

The findings above were in relation to the council's previous financial system (Oracle EBS), and as the replacement One Source system was due for implementation (of the Finance and HR modules) in July 2020 these areas of good practice were included in the build of that system. The One Source system which is now live uses a single sign on password in line with ICT policy, with security focusing on a mix of alpha numeric characters which fully address the findings highlighted.

- Grant Thornton noted non-compliances with advised best practices that could create a risk of unauthorised access (mainly in relation to lack of audit trails).

In line with the finding above, as part of the implementation of the replacement financial system, One Source, audit trails have been added against all bank account records and all supplier records, which therefore fully addresses the findings highlighted.

- The generic system administration account 'SYSADMIN' cannot be disabled due to system restrictions. In order to ensure that this generic account does not present a risk of misuse this account should have the minimum level of privileges possible assigned to it.

There is one generic account called FIN_ADMIN. This is where all scheduled processes have been set to run, however this is a generic account which is necessary as if the scheduled processes were attached to an individual employee and that employee changed roles or left the authority, all scheduled processes would fail. However it has been clarified that no Walsall employees have access to this generic account, the only access to this account is with the council's external support provider, which therefore removes the risk highlighted.

- There are 2 members of HR who are end users with system administration rights in iTrent. The combination of finance duties and security administration is considered a segregation of duties conflict.

System administration rights were provided to these 2 members of staff to ensure business continuity whilst the system administrator was seconded to the One Source Project. There are a number of additional controls that have been put in place to prevent any risk and ensure that system integrity is maintained. Once One Source is Implemented system administration rights will revert back to the Payroll & Pensions Manager.

- Access control weaknesses in iTrent do not comply with good practice.

The findings above were in relation to the council's current payroll system (iTrent), and as the replacement One Source system is due for implementation these areas of good practice are included in the build of that system. The One Source system uses a single sign on password in line with ICT policy, with security focusing on a mix of alpha numeric characters which fully address the findings highlighted.

- Changes to iTrent batch schedules are managed informally and that no formal records are kept of changes made to schedules.

The only batch schedule changes that are carried out each month are date parameters to enable correct payroll processing and documentary evidence of these changes are kept as part of the monthly controls. Examples of this documentary evidence was provided to the auditor following the completion of the IT audit to confirm that this is the case and no further / additional action is therefore required in this area.

Performance management and risk management issues

The 2019/20 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 2019/20, although some services did overspend, with corrective being taken as appropriate.

Value for Money

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.

Equality implications

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.

Consultation

The report is prepared in consultation with various managers.

Background Papers

Various financial working papers, statutory and other guidance.

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