



Agenda Item No:

Report To: Audit Committee

Date of Meeting: 29 September 2020

Report Title: Draft Statement of Accounts

Report Author & Job Title: Maria Hadfield

Portfolio Holder Cllr. Bell
Portfolio Holder for: Finance & ICT

Summary:	This report introduces the Draft Statement of Accounts for Audit 2019/20 and highlight's areas of materiality and key risks.
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Key Decision: YES/NO (delete as appropriate)

Significantly Affected Wards: NA

Recommendations: **The Cabinet is recommended to:-**

- I. **Note the draft statement of accounts 2019/20**
- II. **Note the risks to the draft statement of accounts 2019/20**

Policy Overview: NA

Financial Implications: None

Legal Implications NA

Equalities Impact Assessment NA

Other Material Implications: None

Exempt from Publication: **NO**

Background Papers: **None**

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Report Title: Draft Statement of Accounts 2019/20

1. This report is to highlight to members key areas of materiality and potential risks to the Draft Statement of Accounts 2019/20
2. Members are asked to note the report and the risks to the Statement of Accounts 2019/20.

Introduction and Background

3. The Council is required to produce an annual statement of accounts for the financial year ending 31 March by the end of May. These are then audited by the Council's external auditor and an opinion issued by the end of July.
4. Due to the COVID-19 pandemic this regulation was amended by, The Accounts and Audit (Coronavirus Amendment) Regulation 2020/404. This amends the 2015 regulations to extend the deadline for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1 April 2019, to 30 November 2020.
5. The changes meant that draft accounts must be published by 31 August 2020 at the latest, rather than the previous deadline of 31 May 2020.
6. The publication date for audited accounts was moved from 31 July to 30 November 2020 for all local authority bodies.

Statement of Accounts 2019-20 Material Items and Risks

7. The External Audit Plan reported to the Audit committee on 17th March 2020 set out two key areas of focus for special audit consideration, valuation of land and buildings and valuation of net pension fund liability.

Land and Buildings Valuations

8. The Council's valuers Wilkes Head and Eve have reported this years property valuations on the basis of 'material valuation uncertainty' as at 31 March 2020. Highlighting that less certainty and a higher degree of caution should be attached to the valuations.
9. Due to the impact of the COVID pandemic, property prices had fallen as a result of the constraints of lockdown impacting on the ability to move house (reported during June 2020). In July however, with the removal of Stamp Duty Land Tax on properties up to £500,000 and the easing of lockdown, prices have rallied. External Auditors will be looking at significant movements until the date the Accounts are signed off and this could include adjustments to the Accounts or a note in the final report, depending on the value of movement.

Net Pension Fund Liability

10. The Council is a member of the Local Government Pension Scheme administered by Kent County Council. The most recent valuation of the Fund was carried out at 31 March 2019. This has set the employers contributions for the period from 1 April 2020 to 31 March 2023. The contribution rate has increased from 14.4% to 17.9%, however the contribution to the schemes deficit was reduced limiting the overall impact on the budget.

11. The Council adjusted its pension liability in 2018/19 to reflect the estimate of the 'McCloud' high court ruling. Clarification is being awaited for the final cost but it is not expected to be materially different to the estimate.
12. Each year the Council seeks advice from an actuary on future pension expense calculations, for the pension fund. These are based on a number of risks:
 - a. Investment risk: The pension fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short term volatility can cause additional funding to be required if a deficit emerges;
 - b. Interest rate risk: The pension fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cash-flows. As the pension fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
 - c. Inflation risk: All the benefits under the pension fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation;
 - d. Longevity risk: In the event that the members live longer than assumed, a deficit will emerge in the pension fund.

Other Risks for Consideration Update to External Audit Plan

13. In addition to the audit risks communicated in the Audit Plan March 2020, recent events have led the auditors to update their planning and risk assessment.
14. The global outbreak of the COVID 19 virus has been identified as a significant risk leading to unprecedented uncertainty. Therefore it is expected that the current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020. Risks included but not limited to :
 - a. Remote working arrangements and redeployment of staff may impact on the quality and timing of financial statements and the evidence to support the statements.
 - b. Volatility of financial and property markets.
 - c. Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment.
 - d. Disclosures within the financial statements will require significant revision to reflect the situation.

Conclusion

15. Members are asked to note the report and the risks to the draft Statement of Accounts 2019/20.

Portfolio Holders Views

16. Due to the COVID 19 pandemic the draft Statement of Accounts is presented later than usual to the Audit Committee. The effect of the pandemic on the economy this year has resulted in several significant risks potentially affecting the estimations in the Statement of Accounts. Member of the committee are

advised to consider these risks highlighted in this report when reading the Statement of Accounts.

17. Contact and Email

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