

# North Tyneside Council Report to Audit Committee Date: 18 November 2020

## ITEM 5

2019/20 Annual Financial Report

**Report from:** Finance

**Responsible Officer:** Janice Gillespie, Head of Resources      **Tel: 643 5701**

**Wards affected:** All

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### **PART 1**

#### **1.1 Executive summary:**

- 1.1.1 The purpose of this report is to seek the Audit Committees approval of the 2019/20 Audited Annual Financial Report in accordance with Section 9 (2) of the Accounts and Audit Regulations 2015.
- 1.1.2 This report and supporting appendices present the Audit Results Report which details the outcome of the external audit of the Authority's 2019/20 Financial Statements by Ernst and Young.

#### **1.2 Recommendation(s):**

The Audit Committee is recommended to:

- (a) approve the Audit Results Report, submitted by the Authority's external auditors Ernst and Young, and agree the draft Letter of Management Representation; and,
- (b) approve the 2019/20 Audited Annual Financial Report.

#### **1.3 Forward plan:**

- 1.3.1 This report is contained in the forward plan of the Audit Committee.

#### **1.4 Council plan, policy framework:**

- 1.4.1 This report covers the financial aspects of all service responsibilities as identified within the 2018-2020 Our North Tyneside Plan and the Authority's policy frameworks. The Audit Results Report covers all financial aspects of the Authority's Plans.

## 1.5 Information

### 1.5.1 Background

It is a requirement of Section 9 (2) of the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Authority approves its audited Annual Financial Report for the financial year.

The requirements and timeline for the approval of a local authority's Statement of Accounts are set out in the Accounts and Audit Regulations 2015. However, due to the impact of the COVID-19 pandemic the Ministry of Housing, Communities and Local Government (MHCLG) made changes to the Regulations. These national changes were made in the Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404). The statutory deadline for the 2019/20 accounts was extended for all local authorities. The changes resulted in the deadline for the Chief Finance Officer to certify the draft accounts changing to 31 August 2020 (previously 31 May) and for the consideration and approval of the accounts taking place no later than 30 November 2020 (previously 31 July).

1.5.2 This is the second year that the Authority's audit has been undertaken by Ernst and Young. Building on the successful process undertaken in 2018/19, the overall audit process, to date, has been positive and Officers have been working closely with the External Audit team to ensure all aspects of the audit are dealt with promptly.

1.5.3 The audit of the 2019/20 accounts is substantially complete and an unqualified audit opinion is expected to be issued. The 2019/20 Audit Results Report notes that no material errors have been identified in the financial statements.

A number of disclosure errors were identified during the audit and the majority of these have been corrected and are reflected in the Annual Financial Report. The significant adjustments required relate to the following items and are described in more detail in the Audit Results Report:

- (a) Disclosure of COVID-19 Grant– Pre 31 March 2020, the Council received £6.8 million of COVID-19 funding from Central Government. This was non-ringfenced funding and as a result should have been recognised in full in Taxation and Non-Specific Grant Income in the Council's Comprehensive Income and Expenditure Statement for 2019/20;
- (b) Note 14 - Officers' Remuneration – £50,000 Banding note– A small number of banding errors and differences between the values disclosed in the note and payroll records were identified;
- (c) Note 14 – Officers' Remuneration – The Chief Executive's name was not disclosed in the note, despite this being a requirement as he earns over the £150,000 threshold;
- (d) Note 14 – Officers' Remuneration – Exit Packages– EY identified three individuals included in the 2019/20 exit package disclosure, who received notification of their exit package in 2018/19. As a result, these individuals should have been included in the 2018/19 financial statements. EY have performed additional procedures to ensure that there were no other errors and identified no other similar occurrences;
- (e) Note 15 – Members Allowances– A small number of differences between payroll records and the values disclosed in the financial statements were

identified. These have been agreed with management who have amended the financial statements;

- (f) Note 17 – Audit Costs– The value disclosed in the draft financial statements was incorrect and has now been updated; and
- (g) Note 37 - National Health Services Act 2006 – The winter pressures grant of £1,031,000 was incorrectly omitted from the draft disclosure. This has now been amended by management.

It should be noted that these adjustments do not impact on the Authority's reserves and balances. A copy of the Audit Results Report is attached as Appendix B. A final version of the audited accounts will be circulated to members of the Audit Committee once the final audit is completed.

1.5.4 The 2019/20 Annual Financial Report is attached for consideration and approval as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code.

### Annual Financial Report

1.5.5 The main elements of the Annual Financial Report are:

- (a) Narrative Statement by the Chief Finance Officer;
- (b) The statutory accounts themselves, namely;
  - Statement of Responsibilities;
  - Comprehensive Income and Expenditure Statement;
  - Movement in Reserves Statement;
  - Balance Sheet;
  - Cash Flow Statement;
  - Housing Revenue Account;
  - Collection Fund Statement.
  - Statement of Accounting Policies adopted when compiling the accounts; and
- (c) The Annual Governance Statement.

1.5.6 Each account above is supported by a comprehensive set of supporting and explanatory notes.

### Summary

1.5.7 The Authority's Annual Financial Report (the Accounts) is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Authority's financial position as at 31 March 2020 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the Balance Sheet and the Cash Flow Statement.

1.5.8 As noted in the Outturn report, the final position of the Authority was £1.087m underspent prior to a transfer to the Strategic Reserve and General Fund Balances. Following the transfer, the General Fund Balance increased from £6.804m to £7.000m. The Housing Revenue Account (HRA) balance as at 31 March 2020 was £7.804m, and Schools Balances were £0.165m. The Council incurred expenditure

of £59.080m in the year on its Investment Plan (£35.911m General Fund and £23.169m HRA).

### The Statement of Accounts

A summary of the main features of the 2019/20 statutory accounts follows:

- 1.5.9 The **Comprehensive Income and Expenditure Statement** (page 26) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Authority's books for the financial year. As its name indicates this account includes the income and expenditure for each service, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.
- 1.5.10 The surplus or deficit shown on the Comprehensive Income and Expenditure Statement represents accounting convention and it does not impact on the Authority's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 28), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.
- 1.5.11 The Movement in Reserves Statement shows that after these adjustments the General Fund balances have decreased by £1.238m. This decrease in the main relates to a fall in school balances of £1.434m together with an increase in the General Fund balances reserves of £0.196m. The General Fund balance has increased to £7.000m whilst the school balances have reduced to £0.165m. The HRA balance increased by £0.500m (to £7.804m) reflecting the reported under spend. HRA reserves have decreased by £0.748m to £19.102m.
- 1.5.12 The **Balance Sheet** is set out on (page 30). As the revenue accounts are closed down for the year, the General Fund and HRA balances, along with the capital transactions from the Authority's Investment Plan are transferred to the Authority's Balance Sheet. This represents the final position of the Authority at the end of the financial year, showing the assets that the Authority owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc).
- 1.5.13 The **Cash Flow Statement** (page 32) shows the movement in cash and cash equivalents during the year.
- 1.5.14 The **Housing Revenue Account** (page 154) sets out the transactions that are ring-fenced for Council Housing.
- 1.5.15 The **Collection Fund Statement** (page 163) accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances relating to North Tyneside Council are consolidated into the Authority's Balance Sheet with the surplus/deficit relating to the Authority shown in the Collection Fund Adjustment Account.

## Annual Governance Statement

1.5.16 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, the Chair of the Audit Committee, and the most senior officer of the Authority (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Authority has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Authority is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Authority's constitution, corporate governance arrangements, facilitation of policy and decision making.

### **1.6 Decision options:**

The options available are:

- (a) To accept the recommendations made in section 1.2.1; or
- (b) To reject the recommendations made within this report.

### **1.7 Reasons for recommended option:**

The production of an Audited Annual Financial Report is a requirement of the Accounts and Audit Regulations 2015.

### **1.8 Appendices:**

Appendix A: Annual Financial Report for 2019/20  
Appendix B: Audit Results Report for 2019/20

### **1.9 Contact officers:**

Janice Gillespie, Head of Resources, Tel 643 5701  
Claire Emmerson, Senior Manager Financial Strategy & Planning, Tel 643 8109  
Cathy Davison, Principal Accountant, Tel 643 5727

### **1.10 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) Accounts and Audit Regulations 2015

(b) Revenue budget 2020/21

<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/Revenue%20Control%20Budget%202020-21.pdf>

- (c) Investment Plan 2020-25  
<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CIId=136&MIId=238&Ver=4> (Agenda reports pack - Appendix D(i))
- (d) Reserves and Balances Policy  
<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CIId=136&MIId=238&Ver=4> (Agenda reports pack - Appendix G)
- (e) CIPFA Code of Practice 2019/20  
Can be inspected at the Authority's offices.
- (f) Outturn Report 2019/20  
<https://democracy.northtyneside.gov.uk/documents/g425/Public%20reports%20pack%2029th-Jun-2020%2018.00%20Cabinet.pdf?T=10>

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

As this is a financial report, implications are covered in the body of the report itself and the Audit Results Report attached as Appendix A to this report together with the 2019/20 Annual Financial Report attached as Appendix B to this report.

### **2.2 Legal**

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its audited accounts for the financial year 2019/20 by 30 November 2020.

### **2.3 Consultation/community engagement**

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2020 was published by 31 August 2020 and was available on the Authority's website.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 6 August 14 September 2020.

### **2.4 Human rights**

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

### **2.5 Equalities and diversity**

There are no direct equalities and diversity implications arising from this report.

## **2.6 Risk management**

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

## **2.7 Crime and disorder**

There are no direct crime and disorder implications arising from this report.

## **2.8 Environment and sustainability**

There are no direct environmental and sustainability implications arising from this report.