

# Audit Committee report



23 March 2021

## FINAL STATEMENT OF ACCOUNTS 2019/20

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Exempt / confidential / not for publication	<b>No</b>
Council Plan reference	<b>Not in Council Plan</b>
Wards affected	<b>All wards</b>

### 1. Executive summary

- 1.1 This report presents the final 2019/20 Statement of Accounts to the Audit Committee. The Audit is now substantially completed and with a small number of items being finalised by Ernst & Young as set out in this report and in the Draft Audit Results Report on this agenda. A verbal update will be provided at the meeting. The report details the Audit amendments and audit finding that have occurred since the draft Statement of Accounts published in August 2020.

### 2. Decisions to be made

- 2.1 Delegate approval to the Chair of Audit Committee in consultation with the Vice Chairs to approve the Statement of Accounts for the financial year ended 31 March 2020 (attached as an Annex);
- 2.2 approve the Accounting Policies for the financial year ended 31 March 2020 (attached as an Annex);

- 2.3 approve the Annual Governance Statement for the ended 31 March 2020 (Included as a separate Agenda item);
- 2.4 authorise the Director of Finance & Resources (S151 Officer), following consultation with the Chair and Vice Chair's, to make any final amendments to the Accounts arising from outstanding audit work prior to the signing of the accounts by the auditor.

### 3. Background

- 3.1 The Accounts and Audit Regulations 2019/20 require the Chief Finance Officer to formally publish the Statement of Accounts by 30 November 2020. Although the 2019/20 Draft Statement of Accounts was published by the required deadline in August 2020, the external audit of these Accounts for the year ended 31 March 2020 was delayed, due to the late sign off of the 2018/19 audit in July 2020, and the need to secure a high quality audit team to deliver the 2019/20 audit. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015.
- 3.2 The Statement of Accounts were presented to the External Auditor in October 2020 and were also made available to the general public throughout the statutory deposit period of 30 days starting Friday 21 August 2020. During this time, members of the public were permitted to view the document and ask questions.
- 3.3 The audit of the final accounts commenced at the start of October 2020 and is now substantially complete. Where changes have been required these have been agreed with EY and are reflected in the attached updated draft accounts. The statements are still subject to the final review process by EY.
- 3.4 EY will be publishing their draft Audit Results Report which they will present to the Committee on the 23 March 2021.

### 4. The Statement of Accounts

- 4.1 The Statement of Accounts for Milton Keynes Council were prepared in accordance with International Financial Reporting Standards and the CIPFA / LASAAC Code of Practice on Local Authority Accounting 2019/20 in the United Kingdom (the Code). The accounts are comprised of:
  - The Narrative Statement;
  - Statement of Accounting Policies;
  - Statement of Responsibilities;

- Statement of Movement in Reserves;
- The Comprehensive Income & Expenditure Account;
- The Balance Sheet;
- The Cash-flow Statement;
- The Notes to the Core Financial Statements.

4.2 The Statement of Accounts also includes the Housing Revenue Income and Expenditure Account and the Collection Fund Account.

4.3 The Narrative Statement is required by the Code and provides a summary of the most significant matters reported within the accounts and of the Council's financial position. It is intended to outline the overall context within which the Council is operating by providing commentary on the Council's priorities, its performance in 2019/20 and the inclusion of a summary of the medium-term outlook and approach to value for money.

4.4 The Annual Governance Statement for 2019/20, which will be published along with the Statement of Accounts and is included as a separate report on this agenda. The Audit Committee should consider this Statement as part of their consideration and approval of the Statement of Accounts.

## 5. Changes to Accounting Policies and Accounts Presentation

5.1 There were no significant changes in accounting treatment in 2019/20 that the Committee need to be aware of.

## 6. Group Accounts

6.1 In addition to the Council's single entity accounts outlined above the Council is required to prepare Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates, and / or joint ventures. Milton Keynes Development Partnership (MKDP) LLP has been incorporated in the group accounts disclosure.

6.2 The External Auditor is required to give an opinion on whether the Council's financial statements present fairly the position of the Council as at 31 March 2020 and its income and expenditure for the year then ended.

## 7. Adjustments made to the draft 2019/20 Statement of Accounts

7.1 The draft Statement of Accounts was published on the 31 July 2020. Since this time the accounts have been the subject of an audit which has identified a small number of adjustments that are required. In addition to these the finance team have also identified some corrections to the draft accounts to ensure that the Final Statement of Accounts is correct. These adjustments are still subject to final audit sign off. A verbal update will be given at the meeting.

**(a) Audit Adjustments & Findings**

- (i) Revenue Expenditure Funded from Capital Under Statute Grant funding a Grant to Whitehouse school £0.600m removed from Assets Under Construction has been revised within the Statement of Accounts to reflect the correct Accounting treatment. The funding has been removed from the cost of service to be correctly accounted for against the Taxation and Non-Specific Grant Income line in the Comprehensive Income and expenditure Statement. This is a classification error and there is no real impact on the financial position of the Council.
- (ii) School Pay accrual £0.490m – Under IFRS19 Employee Benefit standard, the Council is required to make a technical adjustment to account for the employee leave and flexi leave balance not taken at 31<sup>st</sup> March each year to account for the cost of taking the leave in the correct year. Unfortunately, there was an error inputting this entry into ERP therefore the balance adjustment went through incorrectly. This is a classification error and there is no real impact on the financial position of the Council.
- (iii) Officer Remuneration disclosure – The disclosure in relation to Bandings for employees receiving more than £50,000 remuneration has been revised for both 2018/19 and 2019/20. In the 2018/19 Audit there was an error in the numbers supplied and agreed to input with the external auditors. Pay costs were included in the disclosure that did not meet the CIPFA Code of Practice definition of remuneration. This does not have an impact on the Council Financial Position, rather it's a change to the presentation of the note in the revised Accounts.
- (iv) Whitehouse Health Facility £1.142m – Whitehouse Health Facility Land Purchase did not complete until 7 April 20 therefore should have been a prepayment in 2019/20 Accounts rather than treated as an Addition to the Council PPE portfolio. This is a classification error between Property Plant & Equipment and Debtors within the Balance Sheet, there is no real impact on the financial position of the Council.
- (v) Valuations – One Asset was not revalued as part of the 5-year rolling programme this year in error and has now been revalued and added to the

latest version of the Accounts. This has led to an increase in the Council assets of £0.094m and is an unrealised gain with no impact on the Council overall financial position.

- (vi) Housing Benefit Overpayment £0.608m – Following a review of the balance sheet and a reassessment of the balances, the overpayments debtor balance has been adjusted. This balance has been put to reserves to meet any potential increased bad debt implications due to the current pandemic.
- (vii) Better Care Fund – The Income was incorrectly included in Other Contributions within the Grant Income note and has been reclassified as a separate grant on the face of the note to the Accounts. This adjustment does not impact on the Core Financial Statements.
- (viii) Emphasis of Matter on PPE Material Uncertainty - as a result of the RICS requirement on valuers to express a material uncertainty on all valuations being given during 2019/20, EY are expressing an Emphasis of Matter on the RICS position and disclosures where there are assets more susceptible to the impact of Covid-19. The Milton Keynes Development Partnership (MKDP) investment properties in our Group meet this category. This emphasis of matter was also included in the Audit report of the MKDP Account and therefore consistent when reporting the group position.
- (ix) Classification of CCLA investment through FVOCI - On transition in 2017/18 and subsequent adoption in 2018/19 of IFRS 9, the Council elected to treat its long-standing investment in the collective investment vehicle CCLA Local Authority Property Fund as Fair Value through Other Comprehensive Income, a designation permissible for equity and equity-type investments. In accounting terms this represented a continuation of the previously accepted practice whereby annual unrealised valuation movements were accounted for in an Unusable Reserve and only recognised in the General Fund when the asset was sold. The Council believed this treatment for its CCLA Local Authority Property Fund investment to be substantially fair as it is held as a strategic long-term investment, the Council does not financially rely upon the annual valuation gains or losses, and the investment is not 'puttable' i.e. contractually able to be readily redeemed in exchange for cash on demand. This treatment was also recommended by the Council's treasury management advisors at the time.

No challenge was raised to this approach as part of the 2017/18 or 2018/19 annual audits. However EY have this year challenged this treatment late into the audit. Whilst remaining confident that treating its CCLA Local Authority Property Fund as Fair Value through Other Comprehensive Income is a fair representation of this financial instrument, the Council

feels there is insufficient time to robustly challenge the auditors assertion and so intends to reclassify the investment as Fair Value through Profit and Loss. MHCLG have introduced a time-limited statutory override to mitigate any impact against the General Fund until 2022/23. Without this override then unrealised valuation gains or losses would have a direct and volatile financial impact on the General Fund, and so the Council would otherwise need to set aside a substantial prudent reserve provision from any accumulated gains or income returns to mitigate against potential future losses. The Council will make representation to MHCLG to make permanent or extend the Statutory Override when next reviewed.

This reclassification will result in disclosure changes on the face of the Income and Expenditure Statement and the creation of a Pooled Investment Fund Adjustment Account to absorb balances currently presented in the Financial Instruments Revaluation Reserve. There is no impact on the overall position of the General Fund. The Council will also have to restate the Balance Sheet and Movement in Reserves Statement to take into account the impact of the transactions and also consider the impact upon group accounts.

At the time of writing this report the Audit remains on going.

**(b) Finance Adjustments**

- (i) Pensions – Pensions interest of £9.570m had been incorrectly mapped within the Comprehensive Income and Expenditure Statement (CI&E). The cost was charged to the Cost of Service line within the CI&E rather than the Financing and Investment Income and Expenditure line. There is no impact on the Surplus & Deficit on Provision of Services within this statement.
- (ii) Covid 19 Grant – The Government allocated £6.077m of Local Authority Support Grant to MKC at the end of 2019/20 to help compensate for the financial impact of the Global Pandemic. The income was received in March 2020, but £5.663m related to 2020/21. The income was treated as receipts in advance in the draft Statement of Accounts. However, as the grant was non-ringfenced, the income should have been recognised immediately and transferred to reserves.
- (iii) MKDP – The Investment property Valuation included in the draft accounts was valued by Kirby Diamond at the 31 March 2020. As part of Milton Keynes Development Partnership (LLP)s COVID19 management plan, the external valuation was kept under review in an effort to capture any movement within the property market. Utilising Fair Value hierarchy that prioritises the inputs to valuation techniques used to measure Fair Value.

The outbreak of COVID-19 has led to increased volatility in the investment markets and as new evidence on the market impact of COVID19 has become available the Milton Keynes Development Partnership (LLP) Board supported reducing the original valuation. This amendment had been reflected in the Authorities Group Accounts disclosure.

- (iv) Mapping of debtors and creditors – In our review of the debtors balance, there were a few items incorrectly allocated to debtors rather than creditors. The value of the adjustment was £0.492m and this was mainly due to mapping issues of account codes that fed into debtors and creditors within the draft accounts. This is a classification error and there is no real impact on the financial position of the Council.

**(c) Audit Findings**

The Auditors have identified several issues within the control environment in which the Council Operates. These have been published in the Draft Audit Results Report which is presented alongside the Statement of Accounts in this Audit Committee meeting on the 23 March 2021. This report includes the Councils response to each of the issue raised and actions taken to resolve each the items identified.

## 8. Outstanding issues still to be resolved

8.1 EY confirmed that the audit is now substantially complete with the finalisation on a number of remaining queries being rapidly progressed. The focus over the next few days is to close out the remaining issues, which include the following:

- Completion of debtors testing – we have provided all samples from testing and are in the process of resolving the last remaining query to support the evidence needed for audit.
- Classification of CCLA investment through FVOCI – An agreement has been made that we will make an adjustment for this item (see above details). The response is yet to be reviewed by EY.
- Review of Hillier Hopkins work in respect of Investment Property held by MKDP – EY are reviewing the file from the MKDP Auditors in respect of gaining assurance of the Investment Properties Valuation approach.
- Conclusion of our work on Property, Plant and Equipment valuations - we have provided all working papers and samples to the Auditors and awaiting feedback from EY.
- Review of updated Recycling Centre Valuation – The Council instructed Woods to provide assurance on the methodology used for the valuation of this asset, following consultation with EY. The valuation has

not been accepted, given this fell outside of the expected valuation range. We are in the process of commissioning a second formal specialised valuation in line with the recent feedback received from EY. We expect that the valuation will reduce and therefore an amendment will be needed to the published audited accounts after the Audit Committee meeting. This adjustment will have no real impact on the available resources of the authority.

- Review of Going Concern Note and consultation through EY Professional Practice Department and the Final Statement of Accounts by EY.
- Final review of the Accounts by Partner in Charge and Engagement Quality Reviewer.
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission – The Audit of the Whole of Government Accounts is in progress and happens at the end of the Authorities main statement of Accounts.

8.2 As the audit is not complete we are requesting approval to delegate the final sign off of the accounts to the Director of Finance & Resources (S151 Officer), following consultation with the Chair and Vice Chair’s, to make any final amendments to the Accounts arising from outstanding audit work prior to the signing of the accounts by the auditor.

## 9. Implications

Financial	Y	Human rights, equalities, diversity	N
Legal	N	Polices or Council Plan	N
Communication	N	Procurement	N
Energy Efficiency	N	Workforce	N

### (a) Financial implications

These are set out in the main body of the report.

### (b) Legal implications

These are explained in the main body of the report.

### (c) Other implications

None

## List of Annexes

Annex – Statement of Accounts 2019/2020

## List of Background Papers



None