

Audit Committee – 26 November 2021

Title of paper:	Update on the Audit of the Council’s Statutory Accounts 2019/20 and 2020/21	
Director(s)/ Corporate Director(s):	Clive Heaphy - Interim Corporate Director Resources	Wards affected: All
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Does this report contain any information that is exempt from publication? No		
Recommendation(s):		
1.	To note the progress in completing the external audit of the Council’s Statutory Accounts 2019/20 and 2020/21	

1. Reasons for recommendations

- 1.1 To update the Audit Committee on the current position regarding the production, audit and approval of the 2019/20 and 2020/21 Statements of Accounts.

2. Background

- 2.1 The Council has been unable to finalise the Statements of Accounts for 2019/20 due to two outstanding issues which also impact the 2020/21 Statement – Robin Hood Energy and the valuation of specialist assets.
- 2.2 Whilst Nottingham’s issues are specific, delayed audit opinions continue to be a major concern in the local audit system. The growing scale of the challenge is illustrated by the latest figures with only 9% of local government bodies having had audits completed by the target publishing date for 2020/21, compared to 45% for 2019/2020 audits and 57% for 2018/2019 audits.

2019/20 Statement of Accounts

- 2.3 The 2019/20 draft Statement of Accounts was published in August 2020 in accordance with the statutory deadline albeit incomplete in respect of the issues below. The key issues emerging from the audit work were:

Robin Hood Energy

- 2.4 The Council had consolidated the draft 2019/20 financial statements for RHE, which had been prepared on a going concern basis into the group consolidated statements. However as the company entered administration less than 12 months after the end of

the 2019/20 reporting period, the going concern basis of accounting is not considered to be appropriate.

- 2.5 RHE Auditors, McIntyre Hudson, had completed the majority of the RHE audit work for 2019/20 but the company went into administration before the audit opinion was signed. Once in administration, there was no requirement for them to do so or for a set of accounts to be filed at Companies House.
- 2.6 Grant Thornton, as part of their audit work, requested assurances for RHE Accounts given that there are no final audited accounts available to consolidate into the final Statement of Accounts. McIntyre Hudson were able to provide full working papers to the point of issuing an opinion but were unable to assist in the opinion itself as they no longer have access to RHE information.
- 2.7 In light of this, and following challenge from the Council, a Grant Thornton Technical panel was convened to consider the issues and how the auditors could satisfy their requirements. Feedback from Grant Thornton is that a proposed approach had been discussed that may satisfy audit requirements and avoid qualification. Further work to re-review the work previously carried out and reach a view on whether there is sufficient assurance for the purpose of the group accounts is being carried out and formal confirmation from Grant Thornton is awaited.

Valuation of Specialist Assets

- 2.8 In previous years the Council has used its in-house design team to value the 75 specialist properties that are included on the Council's balance sheet. Before the 2019/20 audit work could be completed, the Council disbanded its in-house design team as part of the 2020/21 interim budget arrangements. As a result, valuations were not undertaken and audit queries could not be answered.
- 2.9 Further enquiries revealed that supporting files and documentation could not be located and the only option available was for the Council to commission external valuers to carry out these valuations. This has been commissioned for a 3-year period covering the 2019/20 - 2021/22 accounts. Initial estimates are that the work for the 2019/20 accounts will be available no earlier than February/March 2022. As this work needs to be completed and then audited, it is unlikely that the accounts can be signed off before March 2022. We are currently liaising with the valuers to see if this can be accelerated however given the nature of the assets and the lack of documentation this is unlikely.
- 2.10 In response to the situation, the Council has:
 - undertaken a joint project between Property Services and Strategic Finance to consolidate operational buildings information to support the Council's asset valuations. A key objective being to hold a central copy of historic and current building related documents;
 - Requested all departments to send through any copies of floor plans and architects drawing for operational buildings on the asset register that they hold;

- Started a process to capture details of when major components in the building were last replaced and descriptions of any major works that have resulted in changes to the footprint of the property in the past 5 years, including extensions. Reconfigurations and partial demolitions are also being collated;
- Issued full instructions and all available data to the valuers and work is underway. Regular progress reports are to be provided so that Councillors and senior management can be updated;
- Instructed Internal Audit to review the decision to abolish the Design Services Team and will produce a report on lessons learned for the future.

2020/21 Statement of Accounts

2.11 These two issues also impact on the 2020/21 Statement of Accounts:

Robin Hood Energy

2.12 Following the strategic review of Robin Hood Energy, the Council disposed of its interest in the company. As part of this process, the customer base has been sold and the company entered into administration on 5 January 2021. Although it was no longer under the control of the Council as at 31 March 2021, in compliance with IFRS 10, transactional data for RHE from 1 April 2020 to 4 January 2021 should be included in the Statement of Accounts.

2.13 The timeline for companies to submit their draft accounts to the Council was 16 June 2021 and avenues are being pursued to obtain accurate financial data up to the point of entering administration. However, no figures were available for consolidation into draft or final accounts. However, enhanced disclosures have been included within both the single entity and group accounts, the key headlines being:

- As at 31 March 2021, the Council's total balance of loans to RHE was £30.1m with £1.6m of loan principal repayments invoiced in 2020/21 (£7.5m was written off in 2019/20).
- RHE loans and outstanding balances were impaired by £13.4m during 2020/21.
- The financial guarantees which totalled £16.5m provided to RHE by the Council were wound down as trading ceased. Previously these had been provided to a level of 80% of RHE's liability to its wholesale energy suppliers to ensure that the company could cover advance purchases of energy.

2.14 There are also references to RHE in the Narrative Report and a contingent liability has been included. A briefing note was provided to Grant Thornton by the Head of Strategic Finance and Deputy S151 Officer to set out the approach taken by the Council in the absence of any financial information being available from RHE.

2.15 Work is currently underway to obtain the financial information from the administrators, Deloitte. As it currently stands there is a risk of qualification on the 2020/21 accounts as a result of this.

2.16 The completion of the audit and sign-off of the accounts is unlikely to be completed before March 2022 due to the need for the valuation work to be carried out and the indicative timeframes that the Council has received for this work to be completed.

3. **Background papers other than published works or those disclosing exempt or confidential information**

3.1 None

4. **Published documents referred to in compiling this report**

4.1 None