APPROVAL OF THE FINAL ACCOUNTS 21016-17	
To:	Governance & Audit Committee members
From:	Tim Willis, Director of Corporate Resources
Date:	5 October 2017

Reason for this briefing

Following the G&A Committee meeting on 27 September, I undertook to send a briefing note to all members of the committee, explaining the outcome of the external audit of the Council's accounts.

Under normal circumstances, there are often small last-minute issues being resolved between the auditor (Grant Thornton) and the Finance team in connection with the accounts, which tends to result in the last-minute circulation of documents supporting the committee decision. This was again the case for the 27 September meeting: the auditor confirmed his (unqualified) draft opinion on 22 September and didn't finalise his Audit Findings Report until 27 September. Although the lateness is something we would want to avoid in future, it wasn't the fault of any single party. After receipt of the confirmation from the auditor, the papers were circulated to all G&A Committee members.

Subsequent to that, the auditor raised a potentially serious matter, which, following a telephone call with the auditor, we at TDC thought had been resolved. We gave an undertaking to follow up the issue subsequent to the meeting, which seemed reasonable, given the lateness of the matter being raised.

Unfortunately, the auditor had a different view: the issue he raised earlier that day, he repeated at the committee. The potential consequences of the issue were that TDC's accounts included a material misstatement, that the accounts might be Qualified as a consequence, and so the Committee could not reasonably be asked to approve the accounts.

Committee members will have been aware of my deep concerns regarding the timing of the auditor's challenge, as well as its substance. These issues are being dealt with through a complaint to both Grant Thornton and the regulatory body that oversees external audit, the PSAA. This briefing focuses on the substantive issue that gave rise to the unfortunate and, as it turned out, unnecessary debate at G&A regarding the auditor's view of the accounts.

The substantive issue

It has been custom and practice at Thanet to carry out valuations of assets (mostly property) as at 1 April, and also not to value every asset every year. But the Council's accounts are produced as at 31 March, and the asset values in the balance sheet should be as at that date. This means that we know that the asset values we hold on record when we finalise the accounts are out of date – sometimes, up to five years out of date, if the asset is one of those that is only valued every five years; but at least one year old, because the latest valuation would have been as at 1 April.

So in order to show that the Council's balance sheet does not mislead the reader, we uprate the valuations to work out an estimate of the asset values, as if we had valued everything as

at 31 March. This is not purely scientific and we seek help from property professionals. The end result represents the uprated value of assets, which we compare to the value in our accounts. If the difference between the two figures is large, it may be viewed by the auditor as “material” and so he could conclude that it represents a “material misstatement”.

I think our current practice is not good enough and we shall be revising our valuation date in future. However, being mindful of this issue, we had written to the auditor in August, showing our workings on the above matter. It wasn’t until the morning of 27 September that he raised a concern.

The auditor had used a percentage taken from our workings as a proxy annual uplift for valuations to all our assets in question, compounded for (in some cases) five years, and worked out that if we had used the same methodology, the resulting difference between the figure in our accounts, and the figure we should have used, was large – large enough to represent a material misstatement. This was the basis of his statements at G&A Committee.

Apart from the issues of process/timing, my concern was that the auditor’s assertions were based on a flawed methodology. Whilst there were and are improvements to be made in the way we value our assets for the final accounts, my contention was that none resulted in the need to revise the accounts as presented to G&A and none amounted to a material misstatement.

This resulted in the debate at G&A and I understand why this gave G&A members cause for concern.

As I emailed on 28 September, the matter was quickly resolved. I emailed a spreadsheet to the auditor, then had a 15 minute telephone call, which resulted in his acceptance of our position. The essence of the spreadsheet and phone call were to point out the flaws in his methodology (that underpinned his assertions at G&A) and demonstrate the consistently-expressed TDC view: that the asset values in the accounts should be updated to a date closer to the relevant accounting date of 31 March; but any difference between the figures in the accounts, and the uprated estimated values, are not “material”.

It continues to be a cause for concern that the auditor felt sufficiently strongly about the issue to raise it for the first time, on the day of G&A Committee, and debate it with me at the meeting; yet the issue was resolved extremely quickly the next day. All documents that formed part of the G&A Committee papers were and are accurate – it is as if the auditor had never raised the issue in the first place.

I apologise to committee members for the events on 27 September and whilst the external auditor operates independently, I will nonetheless put in place measures to minimise the likelihood of a repetition.

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