

Committee: Standards and General Purposes

Date: 30 July 2018

Agenda item:

Wards: All

Subject: Audited Final Accounts 2017/18

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: AD of Resources 0208-545-3458

Key decision reference number: This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

Recommendations:

1. That Committee approve the audited Statement of Accounts, including the Group Accounts and the Pension Fund Accounts (Appendix 2), subject to any further comments from the External Auditor.
 2. That Committee note any comments made by the Pensions Fund Advisory Panel regarding the Pension Fund Accounts.
 3. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
 4. To note EY's Audit Results Report (Appendix 3) for the Statement of Accounts under the ISA 260. (To follow)
 5. That the Chair signs the Statement of Responsibilities for the Statement of Accounts (Appendix 2, page 154).
 6. That the Chair signs Letters of Representation (Appendices 3 and 4) for the Statement of Accounts and Pension Fund Accounts.
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1. Purpose of report and executive summary

- 1.1 This report presents the audited Statement of Accounts for the year ended 31st March 2018 for adoption by Standards and General Purposes Committee in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.
- 1.2 The draft accounts are attached as Appendix 2 to this report. (*To follow*). A summary of the draft Statement of Accounts is attached as Appendix 1. Appendices 3 and 4 contain Ernst & Young's Audit Results Reports on the main accounts and Pension Fund respectively, including two Letters of Representation, one for the main accounts and one for the Pension Fund. (*To follow for the main accounts*) Appendix 5 contains the Council's revenue account, extracted from its Whole of Government Accounts (WGA) submission.

2. Details

- 2.1 **Accounting Code of Practice:** Section 21(2) of the Local Government Act 2003 requires local authorities in the United Kingdom to keep their accounts in accordance with “proper practices”. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom, prepared by the CIPFA/LASAAC Joint Committee. The Code specifies the principles and practices of accounting required to give a “true and fair“ view of the financial position and transactions of a local authority. In particular, it prescribes the accounting treatment and disclosures for all normal transactions of a local authority.
- 2.2 The Code involves adaptations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations as are necessary for the local government.
- 2.3 **Accounts and Audit Regulations:** These specify the timetable for producing the Council’s accounts which have been brought forward for reporting the 2017/18 accounts and which are as follows:
- a) That the Council's statement of accounts must be ready for audit by no later than 31st May 2018 and in particular that the responsible financial officer must sign and date the accounts and certify that it presents a true and fair view of the financial position of the body at the year end and of that body’s income and expenditure for that year. There is no requirement for approval by committee at that stage.
 - b) That the committee of members must approve the Statement of Accounts by the 31st July 2018. The accounts must be signed and dated by the chairman of that committee and then published on the Council’s website.
- 2.4 In addition, if there are any amendments to the accounts, the Chief Financial Officer must re-certify the presentation of the Statement of Accounts by signing and dating the balance sheet signed on the 31st May 2018.
- 2.5 **Audit of the Council’s accounts:** Ernst & Young are still carrying out their planned audit on the Council’s accounts and expect to complete their work by the date of the committee. Until the audit work is complete, it is possible that amendments may arise. If they do, they will be reported to this committee. Subject to satisfactory completion of the remaining audit work, the results of the audit are that the accounts are unqualified, that is, the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.
- 2.6 The audit work is continuing at a pace and the tighter timeframe in which to close our accounts is creating a number of significant challenges , both for the auditors and the Finance team. As such, the draft accounts and the main Audit Results Reports will follow this report. Officers will update the Committee members on progress at the meeting.

- 2.7 Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.
- 2.8 Audit Results Reports: Ernst & Young will issue its Audit Results Reports (ARRs), under ISA 260. The auditors are required to comply with the Auditing Standards contained under ISA 260, which covers 'Communications of Audit Matters with those charged with governance'. The auditor is required to report relevant matters relating to the audit to those charged with governance. There is one ARR for the Statement of Accounts and a separate ARR for the Pension Fund accounts.
- 2.9 Letters of Representation: ISA 580, covering Management Representation, requires that the auditor be provided with written representation from management with appropriate responsibilities and knowledge of the financial statements. This applies to the main accounts and the Pension Fund Accounts.
- 2.10 ISA 260 requires that those charged with governance should sign agreement to the Letter of Representation. After the Committee has discussed and agreed the Letter of Representation, it has to be signed by the Chief Financial Officer. The Chair of the Committee is then required to sign agreement to the Letter of Representation. Copies of the letters to be signed for the main accounts and the Pension Fund accounts are included in Appendices 3 & 4.
- 2.11 **Financial Summary**: The audit work to date has also not resulted in any changes to level of reserves.
- 2.12 Fund Balances and Reserves: Table 1 contains a breakdown of revenue balances and reserves, which when the Collection Fund balance is included, stand at £62.892m.

Table 1: Reserves

| Reserves | 2016/17 | 2017/18 |
|---|---------------------|-------------------|
| | Audited Accounts | Draft Accounts |
| | £000 | £000 |
| 1. Usable reserves | | |
| General fund balance | 12,778 | 12,778 |
| General fund-schools | 8,246 | 7,820 |
| Earmarked reserves (excluding schools) | 32,508 | 33,575 |
| Earmarked reserves- schools | 8,597 | 6,548 |
| Revenue reserves and balances | 62,129 | 60,721 |
| Unapplied capital receipts | 22,986 | 15,512 |
| Unapplied capital grants | 7,251 | 10,479 |
| Other usable reserves | 30,237 | 25,991 |
| Total usable reserves | 92,366 | 86,712 |
| 2. Unusable reserves | | |
| Collection fund | 1,395 | 1,171 |
| Other unusable reserves | (35,479) | 27,343 |
| Total unusable reserves | (34,084) | 28,514 |
| Total reserves | 58,282 | 115,226 |

2.13 The £63m increase in unusable reserves is due to increases in the capital adjustment account (£20m) and revaluation reserve (£32m) and pensions' reserve (£11m). The increase in the capital adjustment account is because financing entries exceeded capital adjustments, the increase in the revaluation reserve is due to upward revaluations of land and buildings and the increase in the pensions' reserve was due to changes in actuarial assumptions.

- 2.14 Outturn Table 2 shows the final outturn for the year. The departmental figures are those reported to the Cabinet. The underspend of £0.266m is part of the £33.575m earmarked reserves in Table 1.

Table 2: 2017/18 Outturn and Budget Variances (subject to completion of audit)

| Cabinet Outturn Report | 2017/18 Current Budget £000 | 2017/18 Outturn £000 | 2017/18 Variance £000 |
|---|--|-------------------------------------|--------------------------------------|
| Department | | | |
| Corporate Services | 9,932 | 8,963 | (969) |
| Children, Schools & Families | 54,691 | 57,122 | 2,431 |
| Community & Housing | 64,480 | 65,654 | 1,174 |
| Environment & Regeneration | 18,271 | 16,810 | (1,461) |
| Net Service Expenditure | 147,374 | 148,549 | 1,175 |
| Corporate Provisions | 1,437 | 484 | (953) |
| Total General Fund | 148,811 | 149,033 | 222 |
| | | | |
| Grants | (28,999) | (29,668) | (669) |
| Business Rates | (35,483) | (35,302) | 181 |
| Council Tax and Collection Fund | (84,329) | (84,329) | 0 |
| Funding | (148,811) | (149,299) | (488) |
| | | | |
| Net overspend (funded from earmarked reserves) | 0 | (266) | (266) |

3. Alternative options

None for the purposes of this report.

4. Consultation undertaken or proposed

- 4.1 Under the Accounts and Audit Regulations 2015, the Council is required to make available, for a 30 working day period, copies of the Statement of Accounts and related information for inspection by any interested person. During this period, interested persons also have the right to question the auditor, by prior appointment, about the accounts. The inspection period ran from 1st June to 12th July 2018 and was advertised on the Council's website at www.merton.gov.uk/finance.
- 4.2 There were no queries raised on the accounts during this time.

5. Whole of Government Accounts (WGA)

- 5.1 The Whole of Government Accounts (WGA) process consolidates the audited accounts of around 4,000 organisations across the public sector in order to produce a comprehensive picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS) and is independently audited.
- 5.2 As an organisation within the WGA boundary, the Council is required each year to complete a WGA return in order that HM Treasury can produce the consolidated WGA accounts.
- 5.3 As part of Ernst and Young's audit work on the Council's accounts, an assurance statement, in respect of the WGA return, is provided to the National Audit Office. EY expect to provide the assurance statement in October.
- 5.4 The Council's revenue account, extracted from the unaudited WGA return, is attached as Appendix 5.

6. CHAS 2013 Ltd Audit

- 6.1 The Council's wholly-owned subsidiary, CHAS2013 Ltd, will be audited by Ernst & Young, commencing September. The audit of CHAS2013 Ltd's accounts is not expected to have any material impact on the Council's accounts.

7. Timetable

- 7.1 The date for the final audit of the accounts has been brought forward from the 30th September to the 31st July. Officers have worked closely with the external auditors to achieve this deadline, but there are some areas outstanding. There will be an update at the meeting.

8. Finance, resource and property implications

- 8.1 These are contained in the body of the report.

9. Legal and statutory implications

- 9.1 These are contained within the report, Members are referred to the Council's Constitution, and in particular the Financial Regulations, which are set out in Part 4f.

10. Human rights, equalities and community cohesion implications

- 10.1 None for the purposes of this report.

11. Crime and disorder implications

- 11.1 None for the purposes of this report.

12. Risk management and health and safety implications

- 12.1 None for the purposes of this report.

13. Appendices

- 13.1 The following documents are to be published with this report and form part of the report

- Appendix 1: Summary Accounts for the year ended 31st March 2018
- Appendix 2: Statement of Accounts for the year ended 31st March 2018 (*To follow*)
- Appendix 3: Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts (*To follow*)
- Appendix 4: Ernst & Young Draft Audit Results Report and Letter of Representation - Pension Fund Accounts
- Appendix 5: Draft Whole of Government Accounts Revenue Account 2017/18

14. Background Papers

- 14.1 The papers used to compile this report are held within the Corporate Services Department. Specifically, they include:-

- Statement of Accounts 2017/18
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- CIPFA- technical bulletins

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