

Committee: Standards and General Purposes

Date: 6th September 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 note the progress made on auditing the Statement of Accounts, including the Group Accounts and the Pension Fund Accounts subject to any further comments from the External Auditor.
 2. That Committee note EY's Audit Progress report which includes their Value For Money assessment (attached to this report at appendix 1).
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1. Purpose of report and executive summary

- 1.1 This report provides an update on the audit of the Statement of Accounts for the year ended 31 March 2018 in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.
- 1.2 Members will recall that the Council met the deadline for having the Statement of Accounts ready for audit by the new shortened deadline of 31 May 2018. However, we reported at the last Committee that the deadline for approving and signing off the Accounts by 31 July 2018 was missed due, predominantly to additional work required to the valuation of Property, Plant and Equipment (PPE). It appears that at least 10% of Councils have missed this deadline, including 3 London Boroughs.
- 1.3 This report advises Members that the valuation work is still not complete and may take us beyond September 2018 to finalise. In addition, and at the time of writing this report, a number of non PPE issues remain outstanding. Officers are working hard to resolve these issues and an update will be provided at the meeting.

2. Audit Work

- 2.1 In their Audit progress report to the 30 July Committee our auditors EY highlighted the PPE valuations as a significant risk. This not only required extensive work on validating our Asset valuations but also resulted in EY adjusting their materiality and expanding their audit sampling. This has resulted in significant additional work for both auditors and officers.
- 2.2 As a result of EY's work so far on PPE our valuer has agreed to conduct extensive additional work on our methodology for arriving at valuations which will not be concluded until mid September. EY will then have to validate this work which could potentially take until October to conclude. Only then can we make the necessary adjustments to our accounts, including the Whole of Government Accounts (WGA), for EY to issue their audit opinion.
- 2.3 It is worth reminding Members that the changes to the Accounts from this work, although important, will have no material impact on our available reserves, spending plans or current projected shortfall in funding.
- 2.4 Officers are also responding to a number of non PPE audit queries predominantly resulting from the extra sampling required by our Auditors. Although these are less significant than the PPE work it is important these are resolved before the Auditors can issue their opinion. At the time of drafting this report this work is still ongoing as both parties are working extensively to close these issues down. An update will be provided at the meeting.
- 2.5 Part of the challenge both parties have faced was the availability of staff during August as it was expected that the work would have been concluded by the end of July.
- 2.6 Members will recall that the Auditors intend to issue an unqualified opinion on our Pension Fund Accounts at the conclusion of the main audit.
- 2.7 EY have, however, satisfactorily concluded their VFM work and their report is included in their Audit Progress Report attached at Appendix 1. In their review EY have concluded that LBM 'remains financially resilient over the medium term but financial challenges are continuing to grow.' Importantly, they also conclude that they do not expect to have any matters to include in the auditors report in respect of the VFM conclusion.
- 2.8 As a result of the additional audit work EY have notified us that an additional cost has been incurred by the Council on audit fees of £52,000 to date. This will increase as additional work is carried out on the PPE valuations.

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. Financial Implications

- 5.1 The cost of the additional fees include the work reported to the 30 July Committee on information provided by a member of the public during the course of the audit. This cost of £9,000 will be charged to the new secondary school project.
- 5.2 The additional cost of £43,000 to date will be met from Environment and Regeneration and Corporate Services budgets and allowed for in the month 4 monitoring report at the 17 September 2018 Cabinet meeting.

6. Background Papers

- 6.1 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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