

Committee: Standards and General Purposes

Date: 8 November 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: Interim 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.
 5. That the Chair signs the Statement of Responsibilities for the Statement of Accounts (Appendix 2).
 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. A summary of the Statement of Accounts is attached as Appendix 1. Appendices 3 and 4 contain Ernst & Young's (EY'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. 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 local government.
- 2.3 **Accounts and Audit Regulations:** These specify the timetable for producing the Council’s accounts which is 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. This target was met.
 - 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. This target was not met.
- 2.4 The second target was not achieved primarily because of material errors identified in working papers in the Council’s valuation of its Property, Plant and Equipment. As a consequence of these errors, officers have carried out additional work to revise the valuations and this has necessitated additional work by the external auditors to verify those new valuations. In addition, as a result of the higher perceived risk of error within the Council’s accounts, our external auditors have carried out additional audit sampling work at a lower level of materiality than had been originally planned.
- 2.5 The missed deadline for signing off our accounts and our Value for Money Conclusion was reported to Public Sector Audit Appointments Ltd (PSAA), who report on the audit of local Government Bodies, by our Auditors and will feature in a soon to be released PSAA report.

- 2.6 **Audit of the Council's accounts:** Progress: Ernst & Young expect to complete all their work by the date of the committee. Until the audit work is fully 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.
- 2.7 As a result of the additional audit work, EY have notified us that an additional cost of £81,000 to date on audit fees has been incurred by the Council. (Audit Results Report page 45, "Fee analysis").
- 2.8 Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.
- 2.9 Audit Results Reports: Ernst & Young has issued 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.
- 2.10 Audit Amendments: The audit work has led to the following three adjustments to the draft accounts. These are referred to on page 25 of the Audit Results Report, "Audit Differences"). The first two adjustments were reported to the July 2018 SGPC (Agenda Item 6).
- 2.11 Adjustment 1: Service expenditure and income in the Comprehensive Income and Expenditure account (CIES) was overstated by approximately £32.2m because inter departmental recharges and transfers had not been removed.
- 2.12 Adjustment 2: IAS 19 Retirement Benefits: The Pension Fund net liability has been reduced by £6.963m, from £357.051m to £350.088m as at 31st March 2018, with a corresponding increase in the Pensions Reserve of £6.963m. The adjustment was needed because officers understated the value of Pension Fund assets reported to the actuaries for purposes of preparing the IAS19 report, which forms the basis for Disclosure 32, Defined Benefit Schemes.
- 2.13 Adjustment 3: To correct the value of the Council's Property, Plant and Equipment. This correction requires changes to the value of Property, Plant and Equipment going back to financial year 2015/16. The cumulative effect of the change in property values in 2015/16 and 2016/17 is a net increase of £173.746m on the figures reported in the audited accounts for 2016/17. This increase is matched by a corresponding increase in Unusable Reserves (the Revaluation Reserve and Capital Adjustment Account). Further details are contained in Disclosure 19, "Property, Plant and Equipment".

- 2.14 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.
- 2.15 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.
- 2.16 Review of processes: Section 13.1 of the 2017/18 Annual Governance Statement Section, which is attached as Appendix 6, now provides for asset valuations to be treated as part of the 2018/19 Improvement Programme for “Significant governance issues”. More generally, officers review all aspects of the closing of accounts’ process every year and use this work to make improvements to those processes in the following year.
- 2.17 **Financial Summary:** The audit work to date has also not resulted in any changes to level of Usable Reserves but it has led to material changes to the level of Unusable Reserves.
- 2.18 Reserves: Table 1 contains a breakdown of all reserves, divided into Usable Reserves (comprising Revenue Reserves and Fund Balances, Unapplied Capital Receipts and Unapplied Capital Grants) and Unusable Reserves.
- 2.19 Usable Reserves: When the Collection Fund balance is included, Revenue Reserves and Fund balances stand at £61.892m as at 31st March 2018 (£63.524m as at 31st March 2017).

2.20 Unusable Reserves: Excluding the Collection Fund, these stand at £197.082m as at 31st March 2018. (As at 31st March 2017, before restatement, there was a negative reserve of £35.479m).

Table 1: Reserves

Reserves	2017/18 Audited Accounts £000	2017/18 Draft (pre audit) Accounts £000
1. Usable reserves		
General fund balance	12,778	12,778
General fund-schools	7,820	7,820
Earmarked reserves (excluding schools)	33,575	33,575
Earmarked reserves- schools	6,548	6,548
Revenue reserves and balances	60,721	60,721
Unapplied capital receipts	15,512	15,512
Unapplied capital grants	10,479	10,479
Other usable reserves	25,991	25,991
Total usable reserves	86,712	86,712
2. Unusable reserves		
Collection fund	1,171	1,171
Other unusable reserves	197,082	27,343
Total unusable reserves	198,253	28,514
Total reserves	284,965	115,226

2.21 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

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 underspend (transferred to 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 timetable for auditing the accounts has been extended to provide for additional audit work on the valuation of Property, Plant and Equipment and on additional sampling work.

8. Finance, resource and property implications

- 8.1 The cost of the additional fees, including for information provided to a member of the public, amounts to £81,000 to date.

9. Lessons learned

9.1 An extensive review will be undertaken of the closure process both internally and with the External Auditor, in line with previous years. However it is already clear that some of those lessons will include:

- An even greater focus on upstream work that can be undertaken prior to the commencement of the audit.
- Where practical, to build up greater resilience in both teams (LBM and EY) to enable a timely approach to and delivery of the audit plan. It was clear from both teams that the earlier deadline sorely tested ours and our Auditors resilience during the audit.
- Improved protocols and continuity plans for operating the EY portal which was the desired mechanism for exchanging data and communications before and during the audit. This proved to be problematic at key times during the audit.
- The recognition that both sides need to improve communications and importantly the logging of key decisions and discussions throughout the audit process.
- Improved closure task lists and robust signoff processes.
- Closer liaison and scrutiny of the valuation process by managers within Environment and Regeneration and Corporate Services.

10. Legal and statutory implications

10.1 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.

11. Human rights, equalities and community cohesion implications

11.1 None for the purposes of this report.

12. Crime and disorder implications

12.1 None for the purposes of this report.

13. Risk management and health and safety implications

13.1 None for the purposes of this report.

14. Appendices

14.1 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
- Appendix 3: Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4: Ernst & Young Audit Results Report and Letter of Representation - Pension Fund Accounts

- Appendix 5: Draft Whole of Government Accounts Revenue Account 2017/18
- Appendix 6: Annual Governance Statement

15. Background Papers

15.1 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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