

## **Committee:** Standards and General Purposes

**Date:** 25 July 2019

Agenda item:

Wards: All

Subject: Audited Final Accounts 2018/19

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: Assistant Director 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.

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### **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 31<sup>st</sup> March 2019 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. A summary of the Statement of Accounts is attached as Appendix 1. The full draft accounts are attached as Appendix 2 to this report. 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. The 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:
- 2.4. That the Council's statement of accounts must be ready for audit by no later than 31st May 2019 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 has been met.
- 2.5. That the committee of members must approve the Statement of Accounts by the 31st July 2019. The accounts must be signed and dated by the chairman of that committee and then published on the Council’s website. Subject to satisfactory completion of the audit by this date, this target has been met.
- 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. 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 has issued its draft 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. Audit Adjustments: In carrying out their audit work, the external auditors, EY, identify amounts in the financial statements which they consider are misstated. These are referred to under the “Audit Differences” page in the Audit Results Report (pages 22) and are summarised below..
- 2.10. (a) Unadjusted Difference: DSG reserve EY consider that a voluntary earmarked balance should not be presented in a deficit position, i.e. as a debit not a credit balance. Officers do not agree and will not be correcting for this.
- 2.11. (b) Adjusted Difference 1: Schools PFI accounting scheme. This is a misstatement which had been reported as part of the 2017/18 audit (SGPC November 2018) and which has already been corrected in the draft 2018/19 statements presented to EY at the start of the audit.
- 2.12. This authority has an accounting model for the schools’ PFI scheme. It enables the authority to account for the sums paid to its PFI provider, New Schools, as the cost of services, principal repayment of loans used to finance the building of the schools and interest on those loans, as required by the relevant accounting standard. The accounting adjustments under this standard are not part of budgetary control reporting. Their impact is purely in terms of presentation and they have nil net effect on the General Fund.
- 2.13. The specific accounting change recommended by EY was to increase the value of the loan outstanding which EY considered had been understated and to alter the profile of the loan repayment over the term of the scheme. The effect of the accounting changes up to the 31<sup>st</sup> March 2018 are set out below. These were not large enough to justify a prior period adjustment.
- 2.14. Balance Sheet: To increase the amount of the loans outstanding by £2.498m (i.e. Other Long Term Liabilities CR £2.498m) with a contra adjustment to the Capital Adjustment Account (Unusable Reserves) i.e. £2.498m DR.
- 2.15. General Fund Revenue: See summary in Table 1 below.

**Table 1 PFI Accounting- General Fund Adjustment up to 31st March 2018.**

Item	£000
Cost of Services (Childrens’ Schools and Families)	(2,070)
Provision of services-Financing and investment income- Interest on Loans to finance PFI schools	4,568
Movement in Reserves- reduction in amounts deemed to be loan repayments (shown as a reduction in the MRP) (*)	(2,498)
<b>Net to General Fund</b>	<b>0</b>

(\*) EY estimate to November SGPC £3.1m

- 2.16. (c) Adjusted Difference 2: McCloud ruling: This matter relates to a recent legal ruling regarding age discrimination arising from public sector pension

scheme transitional arrangements. This has been adjusted for during the audit in accordance with the relevant accounting standard. The accounting adjustment is shown in Table 2. This adjustment affects Unusable Reserves only.

**Table 2 Estimated effect of McCloud ruling**

<b>General Fund revenue</b>	£000
Cost of Services-additional pension fund liability under IAS19	6,550
Movement in Reserves-Transfer to Pensions Reserve	(6,550)
Net to General Fund	0
<b>Balance Sheet</b>	
Pensions Liability	(6,550)
Unusable Reserves	6,550

- 2.17. 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.
- 2.18. 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.
- 2.19. **Financial Summary:** The audit work to date has not changed Usable Reserves but it has led to one change to Unusable Reserves.
- 2.20. Reserves: Table 3 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves.
- 2.21. Usable Reserves: Revenue reserves and fund balances are £67.070m as at 31<sup>st</sup> March 2019 (£60.720m as at 31<sup>st</sup> March 2018). This represents an increase of £6.350m.
- 2.22. Unusable Reserves: These are £184.373m as at 31<sup>st</sup> March 2019 (£198.252m as at 31<sup>st</sup> March 2018).

**Table 3: Reserves**

Reserves	2018/19 Draft Accounts as amended by external audit adjustment and still subject to audit £000	2017/18 Audited Accounts £000
1. Usable reserves		
General fund balance	13,778	12,778
General fund-schools	8,096	7,820
Earmarked reserves (excluding schools)	42,475	33,574
Earmarked reserves- schools	2,721	6,548
<b>Revenue reserves and balances</b>	<b>67,070</b>	<b>60,720</b>
Unapplied capital receipts	9,228	15,513
Unapplied capital grants	17,006	10,479
<b>Other usable reserves</b>	<b>26, 234</b>	<b>25,992</b>
<b>Total usable reserves</b>	<b>93,304</b>	<b>86,712</b>
2. Unusable reserves		
Collection fund	(476)	1,171
Other unusable reserves	184,949	197,081
<b>Total unusable reserves</b>	<b>184,473</b>	<b>198,252</b>
<b>Total reserves</b>	<b>277,777</b>	<b>284,964</b>

- 2.23. Outturn Table 4 shows the final outturn for the year. The departmental figures are those reported to the Cabinet. Net service expenditure was underspent by £1.995m There was an overall underspend on the General Fund (£7.656m) and this, together with the surplus on the Business Rates Retention Scheme (£3.852m), has been transferred to General Fund Balances (£1m) and earmarked revenue reserves (£10.508m).

**Table 4: 2018/19 Outturn and Budget Variances**

<b>Cabinet Outturn Report</b>	<b>2018/19 Current Budget £000</b>	<b>2018/19 Outturn £000</b>	<b>2018/19 Variance £000</b>
<b>Department</b>			
Corporate Services	10,433	7,465	(2,968)
Children, Schools & Families	59,083	61,535	2,452
Community & Housing	63,019	62,914	(105)
Environment & Regeneration	18,111	16,737	(1,374)
<b>Net Service Expenditure</b>	<b>150,646</b>	<b>148,651</b>	<b>(1,995)</b>
Corporate Provisions	(1,889)	(7,550)	(5,661)
<b>Total General Fund</b>	<b>148,757</b>	<b>141,101</b>	<b>(7,656)</b>
Grants	(9,855)	(9,855)	0
Business Rates	(51,463)	(55,315)	(3,852)
Council Tax and Collection Fund	(87,439)	(87,439)	0
<b>Funding</b>	<b>(148,757)</b>	<b>(152,609)</b>	<b>(3,852)</b>
<b>Net underspend transferred to General Fund balances</b>			<b>1,000</b>
<b>Net underspend transferred to earmarked reserves</b>			<b>10,508</b>

### **3 Alternative options**

- 3.1. 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 3rd June to 12th July 2019 and was advertised on the Council's website at [www.merton.gov.uk/finance](http://www.merton.gov.uk/finance).
- 4.2. During the inspection period officers responded to two people who had made formal enquiries about the accounts. There were no requests to question the auditors about the accounts.

### **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. Ernst and Young provide an assurance statement to the National Audit Office in respect of the WGA return as part of their audit work on the Council's accounts, EY expect to provide the assurance statement by the 13th September 2019.
- 5.4. The Council's draft (pre audit) revenue account, extracted from the unaudited WGA return, is attached as Appendix 5.

## **6 Audit of Council's subsidiary companies**

- 6.1. The Council has two wholly-owned subsidiaries, CHAS2013 Ltd and Merantun. CHAS2013 Ltd will be audited by Ernst & Young from the week beginning 2<sup>nd</sup> September 2019. Merantun will be audited from the week beginning 12<sup>th</sup> August 2019. It is not expected that this work will have any material impact on the Council's accounts.

## **7 Finance, resource and property implications**

- 7.1. EY have advised that there will be additional audit fees for (a) additional work on Property, Plant and Equipment (£5,000 to £15,000) (b) additional work arising from changes in materiality and clearance of audit queries (£15,000 to £25,000). This will bring the cost of the audit to a figure in the range of £130,500 to £150,500. This compares to the scale figure previously notified of £110,500 (SGPC 14<sup>th</sup> March 2019).
- 7.2. This Council's 2018/19 accounts made provision for these sums which were funded from the approved 2018/19 budget for audit fees.

## **8 Legal and statutory implications**

- 8.1. 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.

## **9 Human rights, equalities and community cohesion implications**

- 9.1. None for the purposes of this report.

## **10 Crime and disorder implications**

- 10.1. None for the purposes of this report.

## **11 Risk management and health and safety implications**

- 11.1. None for the purposes of this report.

## **Appendices**

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

- Appendix 1: Summary Accounts for the year ended 31<sup>st</sup> March 2019
- Appendix 2: Statement of Accounts for the year ended 31<sup>st</sup> March 2019
- Appendix 3: Draft Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4: Draft Ernst & Young Audit Results Report and Letter of Representation - Pension Fund Accounts
- Appendix 5: Draft Whole of Government Accounts Revenue Account 2018/19

## **Background Papers**

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

- Statement of Accounts 2018/19
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
- CIPFA- technical bulletins