

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

**Date:** 21 September 2021

Agenda item:

Wards: All

Subject: Audited Final Accounts 2020/21

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Tobin Byers – 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.

**Reasons for urgency:** The Chair has approved the submission of this report as a matter of urgency to enable the Council to sign off its' accounts as required within the statutory deadlines.

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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. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
  3. To note EY's Audit Results Report (Appendix 3) for the Statement of Accounts under the ISA 260.
  4. That the Chair is authorised to sign the Statement of Responsibilities for the Statement of Accounts (Appendix 2)
  5. That the Chair is authorised to sign the 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 2021 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.

## 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. The timetable for the 2020/21 Statement of Accounts is exceptional in continuing to allow a longer period for the production and audit because of the COVID-19 pandemic. The table below compares the 2020/21 timetable with the dates actually achieved and with the requirements of the 2019/20 timetable. The paragraphs below the table provide more details about the 2020/21 timetable.
- 2.4. **Table 1 Audit of Accounts**

	2019/20	2020/21	2020/21
	Audit timetable	Audit timetable	Actual/Expected
<b>Accounts ready for audit</b>	31 <sup>st</sup> August 2020	31 <sup>st</sup> July 2021	6 <sup>th</sup> July 2021
<b>Publication of accounts</b>	30 <sup>th</sup> November 2020	30 <sup>th</sup> September 2021	By 30 <sup>th</sup> September 2021

- 2.5. Accounts ready for audit: The Council's statement of accounts must have been ready for audit by no later than 31st August 2021. The draft SOA was published and was ready for audit on the 5<sup>th</sup> July 2021. The Chief Financial Officer must have signed and dated the accounts and certified 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 this stage. This requirement has been met.
- 2.6. Publication of accounts The committee of members must approve the Statement of Accounts by the 30<sup>th</sup> September 2021. 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 requirement will be met.
- 2.7. Audit Progress: Ernst & Young expect to complete the majority of their work by the end of September. 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.

- 2.8. Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.
- 2.8.1 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. The key matters being reported by EY are in respect of-
- 2.8.2 Going Concern The accounts include in Note 42, "Critical Judgements in Applying Accounting Policies", specific reference to the fact that the accounts have been prepared on a Going Concern basis. The underlying principle is that accounts have been prepared on the basis that the authority will continue in operational existence for the foreseeable future from the date the accounts were authorised for issue (5 July 2021). This reference was included as a response to the significant financial risks arising from Covid-19 which have affected this and other authorities since March 2020
- 2.8.3 Accounting for COVID-19 related government grants – During 2020/21 we received grant funding and some grants had conditions attached which affected the accounting treatment that was required. EY have reviewed the treatment that we adopted in determining whether we were acting as principal or as agent for central government in administering the grants. EY have determined that for some Local Restrictions Support Grants we were acting as principal and we have adjusted our accounting treatment to reflect that.
- 2.8.4 Pension Liability and Asset Valuation - A new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. This is an issue across all local government audit. Audit firms are checking with the National Audit Office and with actuaries to be able to gain this assurance. EY will provide a verbal update on progress at the committee meeting.
- 2.8.5 National Non Domestic Rates - The collection fund contains a provision of £16.4m for the estimated cost of appeals against NNDR charges which may be settled in future years. The provision consists of £5.9m of threats, £6.6m of challenges from the 2017 appeals list and £3.9m from the 2010 appeals list, The Authority's share of this provision is £4.9m (30%). We reviewed the figures provided by 'Analyse Local' and made a local adjustment to reduce the value of the suggested threats provision by £6m (50%). We have investigated some of the larger suggested threats and found that there will be no loss of yield from them. Previous evidence has indicated that the threats advised by 'Analyse Local' do not necessarily result in challenges to the Valuation List or loss of yield and we consider the reduction was valid.
- 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. A

misstatement is a difference between the figure which EY consider should be disclosed and the figure actually disclosed. The misstatements identified are contained in the “Audit Differences” page, page 25, in the Audit Results Report and can be divided into those which have been adjusted and one which we have chosen not to adjust.

- 2.10. Audit differences – accounts adjusted: These are summarised below (and include roundings). Please note that the correction of these misstatements does NOT affect the level of Usable reserves and balances.

**Table 2 Audit Adjustments**

Item	Long Term Assets £000	Current Assets £000	Current Liabilities £000	Long Term Liabilities £000	Usable Reserves £000	Unusable Reserves £000
<b>Covid ARG * Grant</b>		0	0			
<b>Capital Grants (s106)</b>				1,570	(1,570)	
<b>Total</b>				1,570	(1,570)	
<b>Draft SoA</b>	782,713	209,333	(118,358)	(498,364)	(148,410)	(226,914)
<b>Expected Final SoA</b>	782,713	209,333	(118,358)	(496,794)	(149,979)	(226,914)

\* Additional Restrictions Grant

- 2.11. Audit difference-accounts not unadjusted: There has been a difference of professional judgement in the need to further adjust the NDR Provision. Additional work is taking place to provide more evidence to support our decision to reduce the amount of ‘threats’ used to calculate the provision.
- 2.12. 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.
- 2.13. 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.
- 2.14. **Financial Summary**: As reported in paragraph 2.10, when comparing with the draft accounts, the adjustments arising from the audit work to date have increased Usable Reserves but have not changed Unusable Reserves.
- 2.15. Reserves: Table 3 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves.

2.16. Usable Reserves: Revenue reserves and fund balances are £149.979m as at 31<sup>st</sup> March 2021 (£93.048 as at 31<sup>st</sup> March 2020). This represents an increase of £56.931m.

2.17. Unusable Reserves: These are now £226.914m as at 31<sup>st</sup> March 2021 (£300.686m as at 31<sup>st</sup> March 2020) a decrease of £73.772m.

**Table 3: Reserves**

Reserves	2020/21	2019/20
	Expected Final Accounts still subject to audit £000	Audited Accounts £000
<b>1. Usable reserves</b>		
General fund balance	14,000	13,778
Earmarked reserves (excluding schools)	98,357	59,606
Earmarked reserves- schools	11,728	(4,295)
<b>Total Revenue reserves and balances</b>	<b>124,085</b>	<b>69,089</b>
Unapplied capital receipts	451	2,059
Unapplied capital grants	25,443	21,900
<b>Other usable reserves</b>	<b>25,894</b>	<b>23,959</b>
<b>Total usable reserves</b>	<b>149,979</b>	<b>93,048</b>
<b>2. Unusable reserves</b>		
Collection fund	(16,383)	413
<b>Other unusable reserves</b>	<b>243,297</b>	<b>300,273</b>
<b>Total unusable reserves</b>	<b>226,914</b>	<b>300,686</b>
<b>Total reserves</b>	<b>379,893</b>	<b>393,734</b>

2.18. Outturn Table 4 shows the final outturn for the year. The departmental figures are those reported to the Cabinet. Net service expenditure showed a favourable variance of £6.778m (excluding COVID). There was also a favourable variance on funding of £1.862m. These favourable variances were taken to earmarked revenue reserves.

**Table 4: 2020/21 Outturn and Budget Variances**

Cabinet Outturn Report	2020/21	2020/21	2020/21
	Current Budget	Outturn	Variance
	£000	£000	£000
<b>Department</b>			
Corporate Services	25,500	29,246	3,746
Children, Schools & Families	57,052	54,081	(2,971)
Community & Housing	58,020	55,739	(2,281)
Environment & Regeneration	9,995	20,684	10,689
<b>Net Service Expenditure</b>	<b>150,566</b>	<b>159,749</b>	<b>9,183</b>
Corporate Provisions	18,566	26,044	7,478
<b>Total General Fund</b>	<b>169,133</b>	<b>185,794</b>	<b>16,661</b>
Net favourable outturn balance transferred to OCPB (Outstanding Council Programme Board Reserve)			
<b>Funding</b>			
Grants (excl. S 31 and COVID-19)	(20,314)	(20,314)	0
Business Rates	(55,896)	(57,761)	(1,866)
Council Tax and Collection Fund	(97,713)	(97,709)	4
Net COVID-19 Emergency Funding	4,789	(18,649)	(23,438)
<b>Total Funding</b>	<b>(169,133)</b>	<b>(194,433)</b>	<b>(25,300)</b>
Funding transferred to earmarked reserves			(8,640)

### 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 12<sup>th</sup> July to 20<sup>th</sup> August 2021 and was advertised on the Council's website at [www.merton.gov.uk/council-and-local-democracy/finance](http://www.merton.gov.uk/council-and-local-democracy/finance).

4.2. During the inspection period officers responded to one person 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. Central government had advised a delay in the return timetable for 20/21 and the current time for collecting the data is expected to be November/December. EY provide an assurance statement to the National Audit Office in respect of the WGA return as part of their audit work and they had expected to provide this statement in November or December but this will now be delayed.

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

- 6.1. The Council has two wholly-owned subsidiaries, CHAS2013 Ltd and w. CHAS2013 Ltd will be audited by Ernst & Young from the week beginning 20<sup>th</sup> September 2021. Merantun will be audited from the week beginning 11<sup>th</sup> October 2021. 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. The expected cost of the audit is £110,500 excluding the cost of non-audit services (the audit of the Housing Benefits grant claim and the Teachers Pensions return).
- 7.2. However, this figure does not include the proposed increase in the scale fee which has been submitted to Public Sector Audit Appointments (PSAA) for consideration. Nor does it include other additional items for which a final fee has still to be determined.
- 7.3. Further details are contained in page 38 of the ARR.

## **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 2021
- Appendix 2: Statement of Accounts for the year ended 31<sup>st</sup> March 2021
- Appendix 3: Draft EY Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4 Draft EY Audit Results Report and Letter of Representation- Pension Fund Accounts (*LoR to follow*)

## **Background Papers**

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

- Statement of Accounts 2020/21
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- CIPFA- technical bulletins