

Committee: Standards and General Purposes

Date: 8 September 2016

Wards: All

Subject: Audited Final Accounts 2015/16

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Paul Dale: AD 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 Pension Fund Accounts (Appendix 2).
 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, 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 2016 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 Council's 2015/16 Statement of Accounts, including the Pension Fund accounts, have been audited and 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 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 the 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 accounts must be ready for audit by no later than 30th June 2016 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 this stage.
 - b) That the committee of members must approve the Statement of Accounts by the 30th September 2016. 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. CIPFA has made recommendations concerning re-certification: the Chief Financial Officer should sign and date the balance sheet and include the following statement on the face of the balance sheet: “these financial statements replace the unaudited financial statements authorised at the meeting of the Standards and General Purposes Committee on 30th June 2016”.
- 2.5 **Audit of the Council’s accounts**: (a) Completion of audit work and approval of accounts: Ernst & Young have completed their audit work on the Council’s accounts. 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 **Audit Amendments**: The audit identified a number of errors within disclosure notes, all of which are considered minor in nature and all have been corrected. There is no effect on the level of reserves reported to Members in June. Subject to Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.

- 2.7 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.
- 2.8 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.
- 2.9 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.
- 2.10 **Financial Summary**: The audit has not resulted in any changes to previously-reported level of reserves.
- 2.11 Fund Balances and Reserves: Table 1 contains a breakdown of revenue balances and reserves, which when the Collection Fund balance is included, stand at £69.05m. There is no change from the draft accounts.

Table 1: Reserves

Reserves	2014/15 Audited Accounts £000	2015/16 Audited Accounts (unchanged from draft accounts) £000
1. Usable reserves		
General fund balance	15,151	15,151
General fund-schools	8,535	10,504
Earmarked reserves (excluding schools)	35,486	32,621
Earmarked reserves- schools	8,403	9,069
Revenue reserves and balances	67,575	67,345
Unapplied capital receipts	31,264	29,582
Unapplied capital grants	5,715	4,153
Other usable reserves	36,979	33,735
Total usable reserves	104,554	101,080
2. Unusable reserves		
Collection fund	2,854	1,703
Other unusable reserves	(56,390)	11,025
Total unusable reserves	(53,536)	12,728
Total reserves	51,018	113,808

- 2.12 The £67m increase in unusable reserves was due to a £36m increase in capital accounting reserves resulting from upward revaluations of land and buildings, and a £31m reduction in the long-term pension liability following favourable changes to the financial assumptions used by the actuary.

- 2.13 Outturn Table 2 shows the final outturn for the year. The departmental figures are those reported to the Standards and General Purposes Committee on the 30th June 2016.

Table 2: 2015/16 Outturn and Budget Variances (following audit)

Cabinet Outturn Report	2015/16 Current Budget £000	2015/16 Outturn £000	2015/16 Variance £000
Department			
Corporate Services	30,210	29,837	(373)
Children, Schools & Families	50,089	50,082	(7)
Community & Housing	56,453	57,393	940
Public Health	296	289	(7)
Environment & Regeneration	18,423	22,055	3,632
Other	(646)	(374)	272
Net Service Expenditure	154,825	159,282	4,457
Corporate Provisions	4,581	(637)	(5,217)
Transfers from Earmarked Reserves	(4,710)	(2,289)	2,421
Total General Fund	154,696	156,355	1,659
Grants	(39,859)	(40,819)	(960)
Business Rates	(33,371)	(33,371)	0
Council Tax and Collection Fund	(81,471)	(81,471)	0
Funding	(154,701)	(155,661)	(960)
Net overspend (funded from earmarked reserves)	(5)	694	699

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 July to 11th August 2016 and is 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 mid-October. 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 Statement of Accounts has been audited within statutory requirements.

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 2016
- Appendix 2: Statement of Accounts for the year ended 31st March 2016
- Appendix 3: Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4: Ernst & Young Draft Audit Results Report and Letter of Representation - Pension Fund Accounts
- Appendix 5: Whole of Government Accounts Revenue Account 2015/16

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 2015/16
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
- CIPFA- technical bulletins

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