

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.

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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Purpose of report and executive summary

- This report presents the audited Statement of Accounts for the year ended 31st 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.
- 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. *(All to follow)*

Details

- **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.
- 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.
- **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 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.
 - b) 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. This target has been met.
- **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.
- Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.
- **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.

- Audit Amendments: The audit work may lead to adjustments to the draft accounts. These will be referred to under the “Audit Differences” pages of the Audit Results Report (Pages tbc) and summarised below.
- 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.
- 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.
- **Financial Summary:** The audit work to date has not resulted in any changes to level of Usable Reserves but it has led to one change to the level of Unusable Reserves.
- 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.
- Usable Reserves: When the Collection Fund balance is included, Revenue Reserves and Fund balances stand at £66.594m as at 31st March 2019 (£61.891m as at 31st March 2018). This represents an increase of £4.703m.

- Unusable Reserves: Excluding the Collection Fund, these stand at £191.499m (£197.081m as at 31st March 2018(* see note below)).

Table 1: Reserves

Reserves	2018/19	2017/18
	Draft Accounts	Audited Accounts
	£000	£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
Revenue reserves and balances	67,070	60,720
Unapplied capital receipts	9,228	15,513
Unapplied capital grants	17,006	10,479
Other usable reserves	26, 234	25,992
Total usable reserves	93,304	86,712
2. Unusable reserves		
Collection fund	(476)	1,171
Other unusable reserves (*)	191,499	197,081
Total unusable reserves	191,023	198,252
Total reserves	284,327	284,964

(*) £197,082 reported to November 2018 SGPC.

- Outturn Table 2 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), have been transferred to General Fund Balances (£1m) and earmarked revenue reserves (£10.508m).

Table 2: 2018/19 Outturn and Budget Variances

Cabinet Outturn Report	2018/19 Current Budget £000	2018/19 Outturn £000	2018/19 Variance £000
Department			
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)
Net Service Expenditure	150,646	148,651	(1,995)
Corporate Provisions	(1,889)	(7,550)	(5,661)
Total General Fund	148,757	141,101	(7,656)
Grants	(9,855)	(9,855)	0
Business Rates	(51,463)	(55,315)	(3,852)
Council Tax and Collection Fund	(87,439)	(87,439)	0
Funding	(148,757)	(152,609)	(3,852)
Net underspend (transferred to earmarked reserves)			(11,508)

Alternative options

None for the purposes of this report.

Consultation undertaken or proposed

- 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.
- To date, there have been enquiries on the accounts from two persons.

Whole of Government Accounts (WGA)

- 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.
- 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.
- 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.
- The Council's revenue account, extracted from the unaudited WGA return, is attached as Appendix 5. (To follow).

Audit of Council's subsidiary companies

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

Finance, resource and property implications

- The cost of the statutory audits is contained in the Council's approved 2018/19 budget.

Legal and statutory implications

- 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.

Human rights, equalities and community cohesion implications

- None for the purposes of this report.

Crime and disorder implications

- None for the purposes of this report.

Risk management and health and safety implications

- None for the purposes of this report.

Appendices (*All to follow*)

- 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 2019
- Appendix 2: Statement of Accounts for the year ended 31st March 2019
- 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 2018/19
- Appendix 6: Annual Governance Statement

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

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