

Committee: Standards and General Purposes

Date: 22 September 2020

Agenda item:

Wards: All

Subject: Audited Final Accounts 2019/20

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 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 31st March 2020 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 provisional revenue account, extracted from its Whole of Government Accounts (WGA) working papers which are being prepared for 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. The timetable for the 2019/20 Statement of Accounts is exceptional in allowing a longer period for the production and audit because of the COVID-19 pandemic. The table below compares the 2019/20 timetable with the dates actually achieved and with the requirements of the 2018/19 timetable. The paragraphs below the table provide more specific details about the 2019/20 timetable.

Table 1 Audit of Accounts

	2018/19	2019/20	2019/20
	Audit timetable	Audit timetable	Actual/Expected
Accounts ready for audit	31 st May 2019	31 st August 2020	6 th July 2020
Publication of accounts	31 st July 2019	30 th November 2020	By 30 th October

- 2.4. Accounts ready for audit: The Council's statement of accounts must have been ready for audit by no later than 31st August 2020. 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.
- 2.5. Publication of accounts The committee of members must approve the Statement of Accounts by the 30th November 2020. 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.

- 2.6. **Audit Progress:** Ernst & Young expect to complete the majority of 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.
- 2.7.1 **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-
- 2.7.2 **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 (3 July 2020). This reference was included as a response to the significant financial risks arising from Covid-19 which have affected this and other authorities.
- 2.7.3 **Covid-19 disclosures** – In addition, following audit requests and collaborative working between the finance team and EY, the Council’s revised statement of accounts at Note 42 now includes a more enhanced disclosure of the impact of the Covid-19 pandemic on the Council’s finances. EY will be including a paragraph in their audit report on the Council’s accounts to emphasise this disclosure because they deem it important for a reader of the accounts.
- 2.7.4 **Property, plant and equipment valuations and the material uncertainty reported by the Council’s valuer** – The Council’s valuer has followed the guidance issued by the Royal Institute of Chartered Surveyors (RICS) and included reference to a material uncertainty of its valuations arising from the uncertainty caused by the Covid-19 pandemic. The Council’s revised statement of accounts at Note 43, “Assumptions made about the future and other sources of estimation uncertainty”, include reference to this uncertainty. EY will be including a paragraph in their audit report to emphasis this disclosure. because they deem it important for a reader of the accounts.
- 2.7.5 **Accounting for the Dedicated Schools Grant (DSG) deficit position** – EY identified this as a significant risk in their audit. The Council has followed the guidance issued by CIPFA in its year end bulletin which has taken into account changes made by the Department of Education to the relevant regulations to enable councils to carry negative DSG reserves.
- 2.8. **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 misstatement 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 has not.

- 2.9. 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	LT Assets £000	Curr Assets £000	Curr Liabilities £000	LT Liabilities £000	Usable Res £000	Unusable Res £000
PPE	2,876 CR					2.876 CR
CTAX and NDR Debtors		858 CR	858 DR			
Sundry Debtors		481 CR	481 DR			
Total	2,876 CR	1,339 CR	1,339 DR	0	0	2,876 CR
Draft SoA	755,842 DR	153,441 DR	73,426 CR	440,493 CR	93,048 CR	302,316 CR
Expected Final SoA	758,718 DR	152,102 DR	72,087 CR	440,493 CR	93,048 CR	305,192 CR

- 2.10. Audit difference-accounts not unadjusted: There has been a difference of professional judgement in the valuation of industrial estates. EY’s valuation specialists valued industrial estates £6.3m higher than the authority’ valuers. This matter has been dealt with by adding a specific disclosure in Note 43 “Assumptions about the future and other sources of estimation uncertainty”.
- 2.11. 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.
- 2.12. 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.

- 2.13. **Financial Summary:** As reported in paragraph 2.10, when comparing with the draft accounts, the adjustments arising from the audit work to date have not changed Usable Reserves but have changed Unusable Reserves.
- 2.14. Reserves: Table 3 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves.
- 2.15. Usable Reserves: Revenue reserves and fund balances are £69.089m as at 31st March 2020 (£67.071m as at 31st March 2019). This represents an increase of £2.018m.
- 2.16. Unusable Reserves: These are now £305.192m as at 31st March 2020 (£184.473m as at 31st March 2019) an increase of £120.719m.

Table 3: Reserves

Reserves	2019/20	2018/19
	Expected Final Accounts still subject to audit £000	Audited Accounts £000
. Usable reserves		
General fund balance	13,778	13,778
Earmarked reserves (excluding schools)	59,606	48,106
Earmarked reserves- schools	(4,295)	5,187
Total Revenue reserves and balances	69,089	67,071
Unapplied capital receipts	2,059	9,228
Unapplied capital grants	21,900	17,006
Other usable reserves	23,959	26,234
Total usable reserves	93,048	93,305
2. Unusable reserves		
Collection fund	413	(476)
Other unusable reserves	304,779	184,949
Total unusable reserves	305,192	184,473
Total reserves	398,240	277,777

- 2.17. 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 £1.716m There was also a favourable variance on corporate funding of £8.760m which was taken to earmarked revenue reserves. This was comprised of favourable variances on corporate grants and business rates of £3.971m and the receipt of a government grant of £4.789m to be used in 2020/21 towards COVID-19.

Table 4: 2019/20 Outturn and Budget Variances

Cabinet Outturn Report	2019/20	2019/20	2019/20
	Current Budget	Outturn	Variance
	£000	£000	£000
Department			
Corporate Services	10,874	10,147	(727)
Children, Schools & Families	60,579	60,377	(202)
Community & Housing	62,510	62,271	(239)
Environment & Regeneration	15,821	16,842	1,021
Net Service Expenditure	149,784	149,637	(147)
Corporate Provisions	2,244	675	(1,569)
Total General Fund	152,028	150,312	(1,716)
Net favourable outturn balance transferred to OCPB (Outstanding Council Programme Board Reserve)			1,716
Funding			
Grants	(8,169)	(9,476)	(1,307)
Business Rates	(44,026)	(46,690)	(2,664)
Council Tax and Collection Fund	(91,070)	(91,070)	0
Net COVID-19 Emergency Funding	0	(4,789)	(4,789)
Total Funding	(143,265)	(152,025)	(8,760)
Funding transferred to earmarked reserves			8,760

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 6th July to 14th August 2020 and was advertised on the Council's website at 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. EY provide an assurance statement to the National Audit Office in respect of the WGA return as part of their audit work and they expect to provide this statement in November or December.

5.3. A provisional (pre audit) revenue account, extracted from the Council's unaudited WGA return (which is still being prepared) 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 2nd September 2020. Merantun will be audited from the week beginning 19th October 2020. 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 36 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 31st March 2020
- Appendix 2: Statement of Accounts for the year ended 31st March 2020
- 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*)
- Appendix 5 Draft WGA Revenue Account 2019/20

Background Papers

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

- Statement of Accounts 2019/20
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- CIPFA- technical bulletins