

Committee: Standards and General Purposes

Date: 5th November 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 the Committee, having scrutinised and approved the accounts at its meeting on 22nd September, approve one amendment to those audited Statement of Accounts, including the Group Accounts and the Pension Fund Accounts subject to any further comments from the External Auditor.
 2. To note EY's Audit Results Report (Appendix 2) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
 3. To note EY's Audit Results Report (Appendix 1) for the Statement of Accounts under the ISA 260.
 4. That the Chair signs the Statement of Responsibilities for the Statement of Accounts (Appendix 3).
 5. That the Chair signs the Letters of Representation (Appendices 1 and 2) for the Statement of Accounts and Pension Fund Accounts.
-

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 (SGPC) in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.
- 1.2. Since the September SGPC there has been one further corrected misstatement. Further details are contained in Section 2.
- 1.3. Appendices 1 and 2 contain Ernst & Young's (EY's) latest 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. The final reports will be issued soon after the Committee.

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. Table 1 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 November

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. This requirement will be met.

2.6. **Audit Progress:** Ernst & Young have almost completed their 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 are requested to recommend that the Council approve one amendment to the accounts submitted to the September SGPC.

2.8. Audit Results Reports: The external auditors are required to comply with the Auditing Standards contained under ISA 260, which covers ‘Communications

of Audit Matters with those charged with governance'. They do so through the Audit Results Reports, ARR. EY has now issued further Audit Results Reports (ARRs) which are appended to this report. The ARR for the main accounts contains details of one further misstatement which has now been corrected and which is explained in paragraph 2.9.

2.9. Adjustments to the Accounts: Three corrected misstatements were reported to the September SGPC and one further corrected misstatement is reported here. This further misstatement relates to accounting standard IAS19 Employee Benefits. An adjustment is required to increase the Pensions liability and increase the deficit on the Pension Fund reserve. Details of all the misstatements are contained in page 25 of the ARR.

2.10. Table 2 shows the effect on the Council's Balance Sheet of the corrected misstatements which are numbered 1 to 4. They have had no effect on Usable reserves.

Table 2 Adjustments to the draft accounts

Item	LT Assets £000	Current Assets £000	Current Liabilities £000	LT Liabilities £000	Usable Reserves £000	Unusable Reserves £000
Draft Accounts	755,842	153,441	73,426	440,493	93,048	302,316
	DR	DR	CR	CR	CR	CR
Reported to SGPC 22nd September- Correction of misstatements						
1. Property, Plant and Equipment	2,876					2,876
	DR					CR
2. CTAX and NDR Debtors		858	858			
		CR	DR			
3. Sundry Debtors		481	481			
		CR	DR			
Revised statement of accounts reported to September SGPC	758,718	152,102	72,087	440,493	93,048	305,192
	DR	DR	CR	CR	CR	CR
Reported to November SGPC-						
4. Pension Fund assets aligned with actuaries' figures				4,506		4,506
				CR		DR
Rounding	1			1		
	CR			DR		
Final Balance Sheet	758,717	152,102	72,087	444,998	93,048	300,686
	DR	DR	CR	CR	CR	CR

- 2.11. Letters of Representation: ISA 580, covering Management Representation, requires that the auditor be provided with written representations 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. The ARR in Appendices 1 and 2 each contain proposed copies of the letters to be signed for the main accounts and the Pension Fund accounts. The actual ARRs (on Merton headed notepaper) are included at the end of these appendices.
- 2.13. **Financial Summary:** As reported in paragraph 2.9, I Table 2, when comparing with the draft accounts, the adjustments arising from the audit work to date have not changed Usable Reserves.
- 2.14. Reserves: Table 3 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves. Usable Reserves (Revenue reserves and fund balances) are £69,089m as at 31st March 2020 compared to £67.071m as at 31st March 2019. This represents an increase of £2.018m.
- 2.15. Unusable Reserves: These are now £300.686m as at 31st March 2020 (£184.473m as at 31st March 2019) an increase of £116.213m.

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 in 1920)	59,606	48,106
Earmarked reserves- schools (including DSG)	(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
Collection fund	413	(476)
Other unusable reserves	300,273	184,949
Total unusable reserves	300,686	184,473
Total reserves	393,734	277,778

- 2.16. 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. The draft WGA return has been submitted to EY to be audited. 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.

6 Audit of Council's subsidiary companies

- 6.1. The Council has two wholly-owned subsidiaries, CHAS2013 Ltd and Merantun. CHAS2013 Ltd was audited by Ernst & Young from the week beginning 2nd September 2020. Merantun was 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 together with additional costs of £36,300 for specific additional tasks.
- 7.2. These figures do not include non-audit services, namely the audit of the Housing Benefits return and the Teachers Pensions Authority return. Nor do they include the proposed increase in the scale fee which has been submitted to Public Sector Audit Appointments (PSAA) for consideration.

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: EY Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 2 EY Audit Results Report and Letter of Representation- Pension Fund Accounts
- Appendix 3 Statement of Responsibilities

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

This page is intentionally left blank