

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

**Date: 04 November 2021**

Agenda item:

Wards: All

Subject: Audited Final Accounts 2020/21 – Update position on Final Audit

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.

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### **Recommendations:**

1. To receive a verbal update from EY on the current position relating to the audit for year ended 31<sup>st</sup> March 2021.
2. To note EY's updated Audit Results Report (Appendix 2) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
3. To note EY's updated Audit Results Report (Appendix 1) for the Statement of Accounts under the ISA 260.
4. That the Chair is authorised to sign the Letters of Representation (Appendices 1 and 2) 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 updated position on the external audit of the Statement of Accounts for the year ended 31<sup>st</sup> March 2021 for noting 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. Appendices 1 and 2 contain Ernst & Young's (EY's) Updated Audit Results Report on the main accounts and FINAL Audit Results Report for the Pension Fund, including two Letters of Representation, one for the main accounts and one for the Pension Fund.

## 2 Details

- 2.1. **Accounts and Audit Regulations:** These specify the timetable for producing and approving the Council's accounts. The committee of members were required to approve the Statement of Accounts by the 30<sup>th</sup> September 2021. The accounts had to be signed and dated by the Chairman of that committee and then published on the Council's website. That requirement was met and the Statement was approved at the meeting on 21<sup>st</sup> September.
- 2.2. Audit Delay Notice - The external audit of the draft statement of accounts for the year ended 31 March 2021 was not completed by 30<sup>th</sup> September. That related to two audit requirements that EY could not complete due to their internal delays.
- The ISA540 (accounting estimates and disclosures) requirement and
  - EY's real estate valuation team continuing their work on the Council's Property plant and Equipment valuations.
- 2.3. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015 (legislation.gov.uk website). Therefore, we were not able to publish our audited 2020/21 final statement of accounts in line with deadline of 30<sup>th</sup> September 2021, and an Audit Delay Notice, together with a letter of explanation from EY, was published on our website.
- 2.4. Updated Audit Results Reports: Ernst & Young has now issued its Updated Audit Results Report (ARR), for LBM and a Final Audit Report for the Pension Fund. The changes from the draft audit results reports presented to Members on 21 September are shown in italics in the reports. These amendments to the ARR are as follows:
- 2.5. 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. The results of the exercise undertaken by EY showed the actuarial estimate to be reasonable and no material adjustments were required.
- 2.6. Non Domestic Rates and Council Tax Debtors: When undertaking the testing of council tax and NNDR Debtors EY identified unreconciled differences between the Civica system and the general ledger. Whilst the balances were not considered to be material, council tax £0.9m and NDR £1.4m, these differences had increased in 2020/21. A full reconciliation will be undertaken to resolve these differences as recommended by the auditor.
- 2.7. Audit differences – accounts adjusted: There are no further changes to the audit adjustments as presented at the 21 September committee.
- 2.8. Audit difference-accounts not unadjusted: There is one unadjusted extrapolated difference of £3.9m. relating to the treatment of s.106 money in the balance sheet. We have not corrected that difference identified and brought to our attention by the auditor because we consider the difference

on the treatment of S106 grants to be immaterial to the reader of the financial statements as it represents a balance sheet classification difference only.

- 2.9. Non Domestic Rates Provision EY have reviewed the information provided by us on the calculation of the NDR Appeals Provision, previously included on the draft ARR as an un-adjusted difference, and are now satisfied with our calculation and no further adjustment is required.
- 2.10. 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.
- 2.11. ISA 260 requires that those charged with governance should sign agreement to the Letter of Representation. After the Committee has discussed and agreed the Letters of Representation, they have to be signed by the Chief Financial Officer. The Chair of the Committee is then required to sign agreement to the Letters of Representation. Copies of the letters to be signed for the main accounts and the Pension Fund accounts are included in Appendices 1 & 2.

### **3 Alternative options**

- 3.1. None for the purposes of this report.

### **4 Whole of Government Accounts (WGA)**

- 4.1. 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.
- 4.2. 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 December 2021. 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.

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

- 5.1. The Council has two wholly-owned subsidiaries, CHAS2013 Ltd and Merantun. CHAS2013 Ltd was audited by Ernst & Young from the week beginning 20<sup>th</sup> September 2021. The audit for Merantun commenced 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.

## **6 Finance, resource and property implications**

- 6.1. 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).
- 6.2. 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.
- 6.3. Further details are contained in page 37 of the ARR.

## **7 Legal and statutory implications**

- 7.1. 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.

## **8 Human rights, equalities and community cohesion implications**

- 8.1. None for the purposes of this report.

## **9 Crime and disorder implications**

- 9.1. None for the purposes of this report.

## **10 Risk management and health and safety implications**

- 10.1. None for the purposes of this report.

## **Appendices**

The following documents are published with this report and form part of the report

- Appendix 1: Updated EY Audit Results Report dated 25 October 21 and Letter of Representation – Statement of Accounts
- Appendix 2: FINAL EY Audit Results Report and Letter of Representation - Pension Fund Accounts

## **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