

Committee: Standard and General-Purpose Committee

Date: 28 November 2022

Wards: All

Subject: 2021-22 Statement of accounts and Audit Results

Lead Officer: Roger Kershaw – Interim Executive Director of Finance and Digital

Lead Member: Councillor Billy Christie

Contact Officer: Nemashe Sivayogan – Head of Treasury and Pensions

Recommendations:

- A. That Committee approve the revised Statement of Accounts, including the Group Accounts and the Pension Fund Accounts (Appendix 2), subject to any further comments from the External Auditor.
- B. To note EY's Audit Results Report (Appendix 3) and the Letter of Representation for the Statement of Accounts.
- C. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts and the Letter of Representation.
- D. That the Standards and General Purposes Committee delegate authority to the Executive Director of Finance and Digital to sign off the final accounts once completed, subject to the Committee receiving a copy for inspection prior to signing.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report presents the audited Statement of Accounts for the year ended 31 March 2022 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.

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.

- 2.2. 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.
- 2.3. 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.
- 2.4. Accounts and Audit Regulations: These specify the timetable for producing the Council’s accounts. The timetable for the 2021-22 Statement of Accounts is exceptional in allowing a longer period for the production and audit because of the continuing impact of the COVID-19 pandemic.
- 2.5. The table below compares the 2021-22 timetable with the dates actually achieved and with the requirements of the 2021-22 timetable. The paragraphs below the table provide more specific details about the 2021-22 timetable.

Table 1 Audit of Accounts

	2019/20 Actual	2020-21 Actual	2021-22 Actual/expected
Accounts ready for audit	31 August 2020	12 July 2021	29 July 2022
Publication of accounts	30 Nov 2020	04 Feb 2022	March 2023

- 2.6. Accounts ready for audit: The Council’s statement of accounts must have been ready for audit by no later than 31st August 2022. 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.
- 2.7. Publication of accounts: the statutory deadline to publish the 2021-22 statement of accounts is 30 November 2022. However, the external auditors have informed the officers that they will not be signing the audit until the audit guidance on how to treat the Council’s infrastructure assets is published by the government and they complete the audit accordingly. The auditors expect to sign the Merton statement of accounts by March 2023 and then we will publish on the Council’s website.
- 2.8 That the Standards and General Purposes Committee delegate authority to the Executive Director of Finance and Digital to sign off the final accounts once completed, subject to the Committee receiving a copy for inspection prior to signing.

- 2.9 Audit Progress: Ernst & Young are still in the process of auditing the Merton Statement of accounts. The progress and the outstanding audit items are listed in the EY audit results report (Appendix 3) . 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.
- 2.10 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-
- 2.11 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 (29 July 2022). This reference was included as a response to the significant financial risks arising from Covid-19 which have affected this and other authorities. The current note provide assurance that the Council is in a strong on-going financial position
- 2.12 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.
- 2.13 Property, plant and equipment (PPE) 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) EYRE is still in the process of auditing he Council property plant and equipment. The Council provided list of Councils PPE in April 2022 to carry out their audit.
- 2.14 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 disclosed. The audit differences identified are contained in the "Audit Differences" on page 21, of the Audit Results Report.
- 2.15 Audit differences – accounts adjusted: These are summarised here (and include rounding). Please note that the correction of these misstatements does NOT affect the level of Usable reserves and balances.
- Collection Fund – various adjustments £5.6m
 - Cash balances (Schools) - £1.1m

- 2.16 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.
- 2.17 Following the completion of audit and before signing the accounts an updated letter of Representation will be signed by the S151 officer. Chair of the Committee is then required to sign agreement to the Letter of Representation
- 2.18 Reserves: Table 2 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves.
- 2.19 Usable Reserves: Revenue reserves and fund balances are £127.781m as at 31 March 2022 (£124.085m as at 31 March 2021). This represents an increase of £3.696m.
- 2.20 Unusable Reserves: These are now £443.556m as at 31 March 2022 (£281.850m as at 31 March 2021) an increase of £161.706m.

Table 2: Reserves

Reserves	2021-22	2020-21
	Expected Final Accounts still subject to audit £000	Audited Accounts £000
Usable reserves		
General fund balance	14,000	14,000
Earmarked reserves (excluding schools)	102,228	98,357
Earmarked reserves- schools	11,553	11,728
Total Revenue reserves and balances	127,781	124,085
Unapplied capital receipts	0	451
Unapplied capital grants	31,049	25,443
Other usable reserves	31,049	25,894
Total usable reserves	158,830	149,979
2. Unusable reserves		
Collection fund	(2,359)	(16,383)
Other unusable reserves	445,915	298,233
Total unusable reserves	443,556	281,850
Total reserves	602,386	431,829

2.22 The Table shows the final outturn for the year.

Table 3: 2021/22 Outturn and Budget Variances

	2021/22 Budget	2021/22 Outturn	2021/22 Variance
	£000	£000	£000
Department			
Corporate Services	11,247	10,638	(609)
Children, Schools & Families	63,644	66,389	2,745
Community & Housing	73,855	73,440	(415)
Environment & Regeneration	16,309	20,206	3,897
Net Service Expenditure	165,055	170,672	5,618
Corporate Provisions	(4,082)	(21,209)	(17,126)
Total General Fund	160,972	149,464	(11,509)
Grants inc COVID	(34,877)	(34,169)	708
Business Rates	(40,587)	(40,587)	(0)
Council Tax and Collection Fund	(85,509)	(85,510)	(1)
Funding			707
Net balance transferred to Earmarked Reserves			(10,802)
Reserves:			
Cost of Living	-	-	2,000
Income Loss Protection Reserve			2,500
Voluntary Sector Support			302
Inflation Protection Reserve			2,000
Civic Pride Fund			2,000
Climate Change Reserve			2,000
Net balance transferred to Earmarked Reserves			10,802

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 1st August 12th September 2022 and was advertised on the Council's website at www.merton.gov.uk/finance.

- 4.2 During the inspection period there were no formal enquiries about the accounts. There were no requests to question the auditors about the accounts.

5 ADDITIONAL

- 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.
- 5.2 The audit has not started as we are still waiting for guidance from the government.

6 AUDIT OF COUNCIL'S SUBSIDIARY COMPANIES

- 6.1 The Council has a wholly owned subsidiary; CHAS 2013 Ltd Statement of Accounts are audited by Ernst and Young separately. The 2021-22 audit is completed on the 7 October 2022.

7 FINANCE, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 The expected cost of the audit is £110,493 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 charges proposed by EY for the number of significant risks and areas of audit focus highlighted in the audit plan as areas of additional work. The estimated additional fee quoted is £133,276. PSAA has provided outline amounts to charge for the work required to address these latter areas.

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 TIMETABLE

- 9.1 Covered in the main part of the report

10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 10.1 None for the purposes of this report.

11 CRIME AND DISORDER IMPLICATIONS

10.2 None for the purposes of this report

11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1 None for the purposes of this report

12.0 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

1. Summary Accounts; Appendix 1
2. Revised Statement of Accounts; Appendix 2
3. Audit Results report for LBM; Appendix 3
4. Audit Results report for Pension Fund, Appendix 4

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