


Non-Executive Report of the: Audit Committee 23 rd July 2019	
Report of: Neville Murton, Corporate Director Resources	Classification: [Unrestricted]
Annual Financial Reports 2018-19 (Incorporating Deloitte's Reports to Those Charged With Governance 2018-19)	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All Wards

Executive Summary

It was intended to present the Annual Financial Report for 2018-19 for approval to this committee, but due to delays with the completion of the audit, it will not be possible to approve the report at this meeting. The auditors have raised a number of issues in their draft report (item 4 of this agenda) that require further attention. Officers are drawing up an action plan to address these issues and will work with the auditors to bring the Annual Financial Report back to Committee for approval at an additional meeting to be arranged in September. The Annual Financial Report comprises a Narrative Report by the Corporate Director, Resources, the audited Statement of Accounts and the Annual Governance Statement.

Recommendations:

The Audit Committee is recommended to:

1. Note the unaudited Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2019
2. Note the officer action plan to address audit matters arising.
3. Note the initial report from the external auditor as presented at item 4 of this agenda. A final report will be brought to the next meeting of this committee.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial report statements by the statutory deadline of 31st July each year. The external auditors are required to audit this report and to provide an audit opinion by the same date.

2. ALTERNATIVE OPTIONS

- 2.1 The Council produces its Statement of Accounts in line with the relevant guidance and legislation.
- 2.2 This report is produced to ensure the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered appropriate.

3. DETAILS OF THE REPORT

- 3.1 The Annual Financial Report comprises three main elements:
- A Narrative Report
 - The Statement of Accounts
 - The Annual Governance Statement (signed for approval by the Mayor and Chief Executive).
- 3.2 The Annual Financial Report for 2018-19 is attached as Appendix 1. The audit is continuing as at the date of this report.

The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit Regulations 2015. The accounts must be prepared and certified by 31st May by the Corporate Director, Resources (the 'responsible financial officer') stating that it presents a true and fair view of the financial position of the Council. By no later than 31st July the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. However, on this occasion, it has not been possible to meet the 31st July deadline for the reasons set out in this report.

- 3.3 For 2018-19 the audit of the Accounts was conducted by Deloitte, commencing in June 2019.
- 3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to this Committee by the auditors. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to this Audit Committee.

Note that Deloitte's appointment commenced on 1st April 2018.

- 3.5 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the “Code of Practice on Local Authority Accounting” and “Standard of Professional Practice on Financial Reporting” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRS).
- 3.6 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. However, the Auditor’s opinion just applies to the Statement of Accounts section of the document. Although the Auditor will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 3.7 The purpose of the Statement of Accounts is to provide clear information about the authority’s finances and should answer such questions as:
- What did the authority’s services cost in the year?
 - Where did the money come from?
 - What were the authority’s assets and liabilities at the year end
 - Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations.

- 3.8 The Council’s 2018-19 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet and Overview & Scrutiny Committee in May, this was earlier than in 2018.
- 3.9 **Audit Opinion** – the audit review is continuing as at the date of this report. There are matters the auditors want to bring to the attention of Members. Officers have drawn up an action plan to ensure the Accounts will be tabled and approved at a later meeting – it is envisaged this meeting will take place in September 2019. The action plan is included as Appendix 2 to this report. The late audit of the Accounts will be reported to the PSAA (Public Sector Audit Appointments).
- 3.10 **Value For Money Assessment** – The draft VFM conclusion on page 14 of the auditor’s report. The auditor envisages issuing a qualified VFM conclusion due to the 2018 Ofsted report and subsequent budget monitoring reports showing overspends in Children services.
- 3.11 **Objections to the Accounts by the public** - As part of the process for the inspection of the Council’s Accounts, local electors are able to raise objections to the Statement of Accounts with the external auditors. No objections to the 2018-19 Accounts have been received but documents have been requested for inspection). An objection was received to the 2016-17 Accounts relating to the legality of the Council entering into PFI contracts. The Council entered into these contracts over ten years ago. KPMG have confirmed the PFI

contracts were legal but have asked that a report is brought to this Committee in November 2019 to outline the contract monitoring arrangement procedures across schools.

3.12 Set out below are the main elements of Statement of Accounts with a brief explanation of the information contained in each element,

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 2018-19 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council's own budget and service organisational structure.</p> <p>The draft accounts show gross revenue spend in 2018-19 of £1.316 billion (£1.26bn in 2017-18), The deficit on the provision of service increased marginally to £97.8m, however technical accounting entries for pension actuarial losses and lower building values (£150m less) caused a deficit of £194m compared with a £268m gain in 2017-18. These technical entries do not affect the Council's usable reserves.</p> <p>The pension loss was mainly due to a lower discount factor being used by the actuary (as they are instructed), this offset a £78m increase in investment values. This deficit includes a number of technical accounting entries which do not form part of the Council's actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then 'reversed out' in the Movement in Reserves Statement. The change in actual usable reserves is explained within the Movement of Reserves</p>
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	<p>statement below.</p> <p>The Expenditure and Funding Analysis (note 7) explains and reconciles the figures in the CI&E to the Directorate expenditure figures reported in the outturn report.</p>
<p>Movement in Reserves Statement</p>	<p>The Movement in Reserves Statement combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>After transferring £18.6m from earmarked reserves, the General Fund balance at 31st March 2019 is £26.8m. This £6.5m reduction in 2018-19 is roughly in line with the original budgeted reduction.</p> <p>An earmarked reserve has been created for collection fund income variations – this balance was previously shown within creditors.</p> <p>Unspent New Homes Bonus monies of £16.8m received in 2018-19 have been also transferred in the earmarked reserve</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. a table of reserves is included as note 8 in the Accounts.</p>
<p>Balance Sheet</p>	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2019. The value of the assets of the Council must equal the value of its liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and</p>

	<p>any debts owing to the Council.</p> <p>Property, plant and equipment have decreased to £2.262 billion in value, a decrease of around £150 million due the Valuer marking down the value of housing properties.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council. £50m of new borrowing was taken out in 2018-19, this was to part fund the repayment of a £60m LOBO loan.</p> <p>The net assets of the Council (assets less liabilities) was £1.723 billion, which was an decrease from 31st March 2018 when the figure was £2.015 billion. The main reason for the decrease is the fall in property values and the increased pension deficit.</p>
Housing Revenue Account	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,476 dwellings.</p> <p>The HRA balance as at 31st March 2019 is £53.7 million, up £6.1 million.</p>
Group Accounts	<p>For a number of years it has been agreed in principle with the auditors that Group Accounts are not required as the asset and liabilities of Tower Hamlets Homes (THH) are not considered material enough to warrant the production of group accounts. THH is 100% owned by the Council and does all of its business with the Council. Note 44 of the accounts shows a summary of THH's draft accounts.</p> <p>Group accounts will be considered in the future once Seahorse Homes and Mulberry Housing have material assets and liabilities – by 31st March 2019, the companies only had small working</p>

	capital loans from the Council.
Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £70,000 which is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a surplus of £17.8 million for 2018-19. The overall balance carried forward on the Fund is a deficit of £17.0 million. The 2018-19 deficit was due primarily to appeals on business rates bills and refurbishment of office blocks which has temporarily removed NNDR charges – these backdated charges will be reinstated once the refurbishment work is complete.</p> <p>From 1st April 2018, the Council and GLA share NNDR receipts which are paid into a London wide pool. This extra share of NNDR income is offset by the removal of Revenue Support Grant (£54m in 2017-18).</p>
Cash Flow Statement	The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.
Pension Fund Accounts	The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31 st March 2019.

	<p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £1.56 billion (an increase of over 5% from the £1.48 billion March 2018 valuation).</p> <p>The results of the triennial revaluation completed during 2016-17 estimated a funding deficit of £235 million (an improvement from £365m in 2013) and a funding level of 82.7% (up from 71.8% in 2013). The next triennial valuation will be in 2020. The actuary estimated the funding level of the fund was around 90% at March 2018.</p> <p>The Pensions Fund Annual Reports will be considered by the September Pensions Committee.</p>
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4. **EQUALITIES IMPLICATIONS**

4.1 There are no direct equalities implications within this report.

5. **OTHER STATUTORY IMPLICATION**

5.1.1 BEST VALUE (BV) IMPLICATION

The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors Deloitte. Deloitte will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter published alongside the committee decision to approve the accounts.

5.1.2 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

There are no SAGE implications arising out of this report.

5.1.3 RISK MANAGEMENT IMPLICATION

There are no specific risk management implications.

5.1.4 CRIME AND DISORDER REDUCTION IMPLICATION

There are no crime and disorder reduction implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The draft Annual Financial Statement and in particular the Statement of Accounts have been prepared by the CFO's staff in accordance with the relevant regulatory requirements. These continue to be subject to the external audit process with any significant issues being brought to the Committee's attention both at this and the next meeting of the committee.

7. COMMENTS OF LEGAL SERVICES

- The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 7.2 The Accounts and Audit Regulations 2015 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 31 May each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The Audit Committee must approve the statement of accounts by 31 July each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 31 July along with any certificate, opinion or report issued or given by the Local Auditor under the Local Audit and Accountability Act 2014.
- 7.3 As indicated in the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.
- 7.4 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. The Annual Financial Report for 2018-19 will go towards demonstrating that the Council is meeting this duty.

- 7.5 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.
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Linked Reports, Appendices and Background Documents

Linked Report

Appendices

1. Annual Financial Report 2018-19
2. Officers' action plan

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

- Kevin Miles, Chief Accountant (ext. 6791)