

Non-Executive Report of the: Audit Committee 30th January 2020	
Report of: Neville Murton, Corporate Director of Resources	Classification: [Unrestricted]
Statement of Accounts 2018-19 - Progress Update	

Originating Officer(s)	Tim Harlock, Interim Chief Accountant
Wards affected	All Wards

Executive Summary

This report is intended to provide Members with an update on the work to complete the corrections arising from the external audit of the 2018/19 Draft Statement of Accounts.

Recommendations:

The Audit Committee is recommended to:

1. Note the continuing progress made on the points raised by Deloitte in their report to this committee on 23 July.
2. Note the emerging matter since that last report.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial statements by the statutory deadline of 31st July each year. Since that target deadline has been missed it is incumbent upon the Council to have its financial statements signed off as soon as possible thereafter.

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 In July, Members received a report from Deloitte detailing matters encountered during their audit of the authority's Statement of Accounts that they wished to highlight. In November a further report from officers outlined the Council's response to date with regard to the matters highlighted. This report updates on ongoing work.
- 3.2 In brief overview, progress on previously identified matters has continued, albeit at slower pace, as officers continue to perform the detailed supporting work that is required to ensure robust capture and documentation of changes proposed.
- 3.3 Unfortunately, one further matter has arisen since the last report which is requiring significant effort to attain clarity on: -
- the required journal entries for schools accounting were not correctly completed in either 2017/18 or 2018/19. At the time of writing this report, any misstatement has not been fully quantified. For the previously identified matters, the updated summary is as follows.
- 3.4 **Valuation of Property Assets** - Detail by asset class as follows:

Council Dwellings	<i>No further action anticipated.</i>
Other Land And Buildings - Schools	Revised valuations of schools have been finalised for the last three balance sheet dates, requiring a Prior Period Adjustment, uplifting the valuations by approximately £110m as at 31 March 2017. Officers have completed processing the extensive amendments entailed – no impact on GF reserves. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Other Land And Buildings - Temporary Accommodation	Officers have completed processing amendments – no impact on GF reserves. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Infrastructure Assets	The matter has been investigated and discussed with the auditor – no impact on GF reserves. <i>Officers are minded not to amend the accounts for this.</i>

- 3.5 **Capital Expenditure** - £3.4m of missed accruals have been processed.
- 3.6 **Pension Liabilities and Lump-Sum Payment to Pension Fund** - there are several points of challenge:

Assumptions feeding into the actuary's IAS 19 report	No further action anticipated.
Estimated pension assets being c£28m higher than the Council's share of the assets as disclosed in the Pension Fund accounts	Officers have agreed to amend – no impact on GF reserves. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
The Council paid a lump-sum “up front” of £43.4m to the Pension Fund in 2017/18, rather than three separate payments of £15m over the three years 2017/18, 2018/19 and 2019/20.	No further action anticipated, although we will change our approach for the next set of accounts – no impact on GF reserves.
Unfunded Liabilities	Officers have agreed to amend – no impact on GF reserves. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>

- 3.7 **Collection Fund-related items** – in Deloitte's report of 23 July, they mentioned release of a creditor balance of £20m and the challenge with respect to the (low) level of provision against appeals made by business ratepayers:

Creditor balance of £20m	Officers have agreed to amend. Proposed treatment has been accepted by the Ministry of Housing, Communities & Local Government. The impact was a loss of £20m to GF reserves, but there was partial mitigation as the amount due to London Pool had been overstated (about £6.5m). <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Low level of provision against appeals to rateable values	Officers have agreed to amend. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>

- 3.8 **Implementation of IFRS 9 and IFRS 15** - although officers do not expect there to be noticeable impact, if any, arising from the implementation of these new reporting standards, there is a need to provide working papers such that Deloitte can scrutinise the assessment made. Officers will work to improve the level of working papers. *This task is outstanding.*

- 3.9 **Other financial reporting matters** - there are several elements that Deloitte made observation on; these will be incorporated in the next version of the accounts, including:

- Accounting policies;
- Critical accounting judgments;
- Cash flow statement;
- Elimination of internal recharges; and,
- Narrative report.

3.10 Further points of significant activity (emerging matters that have come into sharper focus since the last report) - these are detailed below:

Review of revenue accruals	This exercise has completed. The final impact on GF reserves was approximately £2m. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Accrual for leaseholder contributions to the costs of major works on housing properties	This exercise has completed. The final impact was to increase capital reserves by £36.2m. <i>Broad approach agreed with the auditor, though may be subject to detailed testing</i>
Loss allowance for bad debt for the above (“bad debt provision” in pre-IFRS 9 terminology)	This exercise has completed. The final impact was to ensure an appropriate figure was set aside, following extensive investigation of the characteristics and legal processes of collection. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Receipts in Advance	This exercise is nearing completion. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Grants accounting – “grants with conditions”	This exercise has completed. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>
Grants accounting – debtor balances	This exercise has completed. The impact on GF reserves is a depletion of approximately £6m. <i>Broad approach agreed with the auditor, though may be subject to detailed testing.</i>

4. **EQUALITIES IMPLICATIONS**

4.1 There are no direct equalities implications within this report.

5. **OTHER STATUTORY IMPLICATION**

5.1.1 VALUE FOR MONEY CONCLUSION

Deloitte will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of its audit report on the Statement of Accounts.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The Statement of Accounts 2018/19 is being restated so as to take account of the significant errors found to date.

7. COMMENTS OF LEGAL SERVICES

- 7.1 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.

Linked Reports, Appendices and Background Documents

Linked Report

Annual Financial Reports 2018-19, presented to Audit Committee on 23 July 2019
Statement of Accounts 2018-19 – Progress Update, presented to Audit Committee on 14 November 2019.

Appendices

None

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:

- Tim Harlock, Interim Chief Accountant (ext. 6791)