

Non-Executive Report of the:  <b>Audit Committee</b>  13 <sup>th</sup> May 2020	
<b>Report of:</b> Neville Murton, Corporate Director of Resources	<b>Classification:</b> [Unrestricted]
<b>Statement of Accounts 2018-19 - Progress Update</b>	

<b>Originating Officer(s)</b>	Tim Harlock, Interim Chief Accountant
<b>Wards affected</b>	All Wards

### **Executive Summary**

This report is intended to present to Members the updated 2018/19 Draft Statement of Accounts, incorporating the changes identified following the issues raised by Deloitte LLP, the Council's External Auditors.

### **Recommendations:**

The Audit Committee is recommended to:

1. Note the revised set of accounts produced by officers to address the points raised by Deloitte.
2. Note the continuing progress made on the points raised by Deloitte in their report to this committee on 23 July.
3. Note further emerging matters.

### **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 31<sup>st</sup> 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 2019, Members received a report from Deloitte detailing matters encountered during their audit of the authority's Statement of Accounts for 2018/19 that they wished to highlight. At subsequent meetings in November 2019 and January 2020 updates were provided on the work being undertaken by officers to resolve these matters. This work is now substantially complete and a revised set of accounts is presented to members for information.
- 3.2 The revised set of accounts has been passed to Deloitte and it is anticipated that work will recommence on the audit shortly. Most of the changes made to the accounts have already been discussed with the audit team and the approach used in the revised version of the accounts has been agreed.
- 3.3 As the result of the work undertaken, there has now been a significant restatement of the 2017/18 comparative figures and a number of material prior period adjustments are included in the accounts. These adjustments are as follows:

<b>Issue</b>	<b>Action</b>
Other Land and Building Valuations	Errors in the methodology used to produce valuations for some properties, primarily the maintained schools, have resulted in increased property values at 31 March 2017 and 31 March 2018.
Leaseholder Contributions	Delays in billing leaseholders for their share of the cost of major works on housing blocks were over looked and additional contributions due at 31 March 2017 and 31 March 2018 have now been reflected in the accounts.
Grants Unapplied and Grant Debtors	A review of balances in the receipts in advance account (part of the creditors balance) identified a number of receipts which were not subject to conditions and should have been recognised in revenue in the year of receipt. In addition debtors had been raised incorrectly for grants. Corrections have been made for two prior years.
Academy Conversions	This adjustment was identified as part of the initial work on the accounts and was included in the first version of the draft accounts. The assets of three schools which became academies late in the 2017/18 financial year had not been removed from the balance sheet.
School Balances	Whilst working on issues raised by Deloitte, it was identified that the final balance sheet entries for the school reserves and cash balances had not been processed at the end of 2017/18 and that there were some missing accounting entries for academy schools.
Recharges	Recharges between business units within the council had not been properly netted down and there was an overstatement of income and expenditure in 2017/18 in excess of £40 million.

<b>Issue</b>	<b>Action</b>
Community Infrastructure Levy	Delays in invoicing for the Community Infrastructure Levy meant that the full debt due had not been formally raised in the accounts, this impacts on balances at 31 March 2017 and 31 March 2018.
Enhanced Teachers Pensions	The liability for early retirement costs for teachers had not been recognised in the accounts and the opening balance sheet at 1 <sup>st</sup> April 2017 has been amended.
Other Corrections	As part of recompiling the accounts, a number of items have been reclassified within the balance sheet; these include adjustments between creditor and debtor balances and reclassification of provisions balances between long and short term liabilities.

3.4 The Prior Period Adjustment note (Note 2) within the revised Statement of Accounts appended to this report provides details of the changes made to prior year figures. The disclosure note includes tables which show how the comparative figures in each of the key statements have changed.

3.5 As a result of the volume of adjustments, a third column has been added to the balance sheet to show the revised balances at 1<sup>st</sup> April 2017.

3.6 In addition to the above amendments, the following changes have been made to the draft accounts for issues that arose in the 2018/19 figures only:

<b>Issue</b>	<b>Action</b>
Other Land And Buildings - Temporary Accommodation	Amendments have been made to the property valuations in in the accounts.
Capital Expenditure	Adjustments have been processed through the accounts for £3.4m of missed creditor accruals.
Estimated pension assets	An amendment has been processed to reflect the Council's share of the assets as disclosed in the Pension Fund accounts.
Creditor balance of £20m written off to General Fund	This entry has been reversed and has now been correctly incorporated into the Collection Fund balances. As part of the review of the Collection Fund figures, a missed accrual was identified for £6.5m which has also been corrected. A transfer to earmarked reserves was also amended to minimise the impact on the General Fund.
Review of revenue accruals	A review of sundry creditor and debtor balances has been undertaken and a number of amendments have been made to accruals.
Low level of provision	An additional substantial provision of £20 million for

<b>Issue</b>	<b>Action</b>
against appeals to rateable values	appeals has now been included within the Collection Fund. The Council's share of this additional provision is £12.8 million (64%).
Insurance Fund	A review of the amounts held in provisions and reserves for Insurance claims has resulted in a transfer from the earmarked reserve to the general fund and the reversal of a specific element of the provision which was not required.
Implementation of IFRS 9 and IFRS 15	Amendments have been made to the narrative and presentation of a number of notes to address the concerns raised by Deloitte. In addition some working papers are being improved.
Accounting policies	Accounting policies have been reviewed and some amendments have been made to improve their presentation, these do not impact on the figures in the accounts. An additional disclosure note has been added for Accounting Standards that have been issued but have not yet been adopted.
Critical accounting judgments	An additional disclosure note has been added for critical accounting judgments. The disclosure notes for assumptions about the future and other major sources of estimation uncertainty and for material items of income and expenditure have been reviewed and updated.
Cash flow statement	The cash flow statement and associated notes has been reworked for 2018/19, utilising the standard CIFPA model.
Narrative report	The Narrative report to the accounts has been re-written to meet the requirements of the Accounting Code of Practice. This now includes more information on the Council, its achievements and performance. In addition it includes a forward looking section reviewing future prospects.

3.7 In addition the following items have been investigated, discussed with the auditor and have not led to any amendments-

<b>Issue</b>	<b>Action</b>
Infrastructure Assets	The matter has been investigated and discussed with the auditor.
Assumptions feeding into	Following discussions with the auditor no changes

<b>Issue</b>	<b>Action</b>
the actuary's IAS 19 report	have been made.
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.	Following discussions with the auditor no changes have been made.

- 3.8 Whilst most of these issues have been discussed with the auditors and some revised working papers have already been provided, detailed audit work will still be required and there is a possibility that further issues will be identified.
- 3.9 It is anticipated that Deloitte will recommence audit work in the late spring or early summer. However at the time of writing it is not possible to confirm an actual date as it will depend on the impact the current Public Health emergency situation has on their audit work with other clients.
- 3.10 The current impact of the changes in both prior years and in 2018/19 on the Council's usable reserves as at 31 March 2019 is as follows:

	<b>As reported in original draft accounts</b>	<b>As reported in revised draft accounts</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General Fund	26,809	27,321	512
Insurance Reserve	21,234	17,666	-3,568
Risk Reserve	4,387	4,535	148
Collection Fund Smoothing Reserve	14,943	6,515	-8,428
Revenue Grant Reserve	1,822	9,470	7,648
Other Earmarked Reserves	90,400	90,400	-
School Balances & DSG Reserve	23,287	23,930	643
Housing Revenue Account	53,692	53,840	148
<b>Total Revenue Reserves</b>	<b>236,574</b>	<b>233,677</b>	<b>-2,897</b>
Capital Receipts Reserve	190,913	190,700	-213
Capital Grants Reserve	94,167	142,325	48,158
<b>Total Usable Reserves</b>	<b>521,654</b>	<b>566,702</b>	<b>45,048</b>

#### **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 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.
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## **Linked Reports, Appendices and Background Documents**

### **Linked Reports**

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**

Draft Statement of Accounts 2018/19 - revised

### **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)