

Approval of the 2018/19 Financial Statements and to receive the External Auditor's Report (ISA260) for 2018/19

Portfolio	Finance
Ward(s) Affected:	All

Purpose

To approve the audited Financial Statements for 2018/19 and to receive the External Auditors Report (ISO260) and Letter of Representation for 2018/19.

Background

1. Statutory regulations require that the unaudited financial statements are published on the website by the 31st May each year and the audited financial statements approved by member by the 31st July each year.
2. The unaudited financial statements were published on the Council's website by the 31st May 2019 and it is the audited financial statements that are now being presented to this Committee for approval.
3. BDO were appointed as the Council's auditors in 2018 and have taken over from KPMG. The appointment was part of a national procurement done by the PSAA on behalf of all English Councils. This meeting is the first time BDO and in particular the audit partner Mr Leigh Lloyd-Thomas will have reported on the Council's annual financial statements to this committee.

Financial Statements

4. The Financial Statements set out the Council's financial performance for the year ended 31st March 2019 and are attached to this agenda as a separate document.
 5. There have been no major changes to the layout of the financial statements this year or to accounting standards compared to last year.
 6. Included within the financial statements is the Annual Governance Statement which sets out the Council's Governance framework and any issues. This has already been approved by the Council's Corporate Management Team, the Chief Executive and the Leader.
 7. There have been a number of changes made to the draft financial statements as a result of the audit and events after the accounts were prepared there has only been a minor upward movement to the general fund balance. These adjustments have been set out in detail in the auditor's report but for convenience have been summarised below:
 - a. The sale proceeds and the net book value for Ashwood House were included as separate income and expenditure figures in the cost of services in the Comprehensive Income and Expenditure statement (CIES). Following a review by the auditors they have determined that these figures should in fact be netted off and shown as "other income" in the CIES;
 - b. The accounting treatment of the Jersey Property Unit Trust (JPUT) has been subject to long discussions both with the previous auditors KPMG
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and well as the new ones. Following a review by BDO conducted after the accounts were drafted the accounting treatment was finalised resulting in a number of adjustments.

- c. The Government lost two cases (McCloud and GMP) relating to age discrimination in pensions however as there was a good chance that this judgement would be appealed no provision was deemed necessary by the actuaries and hence not included in the draft accounts. This month however the Government announced it would not appeal against the judgement and hence the auditors have determined that a provision is now required leading to an adjustment in the accounts.
- d. In order to bring certainty as to future interest rates on borrowing the Council entered into a forward loan agreement whereby it is committed to borrow a fixed sum at a fixed rate at a date in the future. On the advice of our treasury advisors Arling Close this was treated as a hedging instrument in the accounts. Following a review by BDO the treatment has been changed and adjustments have been made to reflect this

ISA260 Audit Report

8. The Audit Commissions Code of Audit Practice requires the auditor to summarise the work they have carried out to discharge their statutory audit responsibilities together with any Governance issues identified. They are charged with reporting these to those charged with governance (The Audit and Standards Committee) at the time the final financial statements are considered. This report must also comply with the requirements of the International Auditing Standard 260 with regard to 'Communication of audit matters to those charged with governance'.
9. The auditors will be presenting their final ISA260 report at the meeting however a draft is attached so that members have a chance to view their findings beforehand. The format is very similar to that presented by the Council's previous auditors and essentially covers the following areas:
 - Proposed opinion on the financial statements and value for money
 - Scope of work undertaken together with any findings
 - Adjusted and non-adjusted changes to the financial statements arising out of the audit
 - Key issues and recommendations
10. Members will have an opportunity to question the auditors about their report at the meeting.

Key Issues

11. The statements below relate to the draft ISA260 report prepared by BDO as attached. If there are any changes the external auditors will update members directly at the meeting:
 - a. The Auditors propose to issue an "unqualified" opinion on both the financial statements and their value for money judgement.
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- b. The auditors have looked at specific risks around property, pensions and fraud and have found no significant issues in these areas.
 - c. All material changes have been reflected in the financial statements. Overall there is only a minor upward movement in the general fund for the year as reported in the audited accounts as compared with the draft accounts at the 31st May 2019.
12. The Auditors require the Section 151 officer and the Chair of this committee to sign a “Letter of Representation” prior to the completion of the audit which sets out in writing information given verbally to the auditor. This letter follows a standard for and content and is set out in annexe A. It will be tabled and signed at the meeting
13. The finance team would like to acknowledge the support and advice given by the external audit team during their visit this year.

Options

14. The Committee can accept or reject the auditor’s report and/or accounts. However these actions may have implications in respect of the auditor signing off the Council’s financial statements

Resources Implications

15. There only resource implication arises due to audit fees. These have been set by the Public Sector Audit Authority (PSAA) at £32,263. However due to the JPUT requirements etc. the actual fee for this year is likely to be higher – however this will be discussed when the audit is complete. For comparison KPMG charged a standard fee of £41,900 last year for the audit (the scale fee) with an additional £4,005 to take account of the JPUT requirements.

Recommendation

16. The Committee is advised to
- i) RECEIVE the audited financial statements for 2018/19 including the Annual Governance Statement for 2018/19;
 - ii) RECEIVE and APPROVE the Letter of Representation;
 - iii) RECEIVE and COMMENT on the ISA260 auditors report and;
 - iv) RESOLVE that the Chairman of the Committee SIGNS the Financial Statements on behalf of the Council

Background Papers: Audited Financial Statements 2018/19
ISA 260 2018/19 Audit report

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Short Commentary on the Financial Statements

The financial statements over the financial year from the 1st April 2018 to 31st March 2019. They have been prepared in accordance with accounting standards modified by the requirements of CIPFA and local government accounting rules.

Narrative Statement

The Narrative statement sets out a brief overview of the year and is intended to support the financial statements. Members may find particular interesting the diagram on page 9 which sets out where all our money actually comes from and goes.

Annual Governance Statement

This sets out the steps the Council has taken to ensure good Governance together with any areas for concern and actions taken. It has been approved by the Corporate Management Team as well as the Chief Executive and the Leader.

Independent Auditors Report

As is the case with a corporate audit the auditor is required to report as to whether the financial statements give a “true and fair” view. In addition for Local Government reporting they are also required to make a “value for money” judgement. This is reported in this section and is also covered in the auditors ISA260 report

Expenditure and Funding Analysis and Comprehensive Income and Expenditure Analysis

These statements show the income and expenditure of the Council. Expenditure is shown broken down by service to give a total net cost of services and then this is funded by taxes and investment income etc. There are also a number of adjustments due to local government accounting being different to normal corporate accounting – for example depreciation is charged to services but then reversed out before impacting the final outturn for the year.

Movement in Reserves Statement

Unlike Companies which will have a profit and loss account and some statutory reserves such as Share premium etc. Councils have a larger number of reserves which are earmarked for future expenditure or risks. This sheet shows the total “usable” reserves which are backed by cash and hence can be spent together with “unusable” reserves which are created for accounting purposes. The Councils reserves have risen during the year due mainly to interest savings and business rates gains being put aside to fund future pressures. It is worth noting that unlike many public bodies and companies Councils cannot borrow to fund revenue expenditure and so reserves are the only way available to fund budget shortfalls or cover unexpected cuts in funding.

Balance Sheet

This will be similar to those of you that work in the corporate world. The Council holds £141m of assets with a further £85m of investment property and longer term investments. In addition there are £44m of debtors and cash. These £268m of assets are supported by £175m of debt and £20m of creditors. The £46m pension liability is a calculated figure based on the requirements of IAS19. In reality the fund is 95% funded and so the Council's actual liability is substantially less.

The bottom of the balance sheet shows the total reserves of the Council as in a company set of accounts with the exception there is no share capital because there are no shareholders.

Notes to the Accounts

Accounting standards coupled with CIPFA and local government accounting rules means that there are a large number of notes included within these accounts. These are designed to give more detail on the accounts and provide additional information for the reader. A summary of the main ones is as follows:

Note 15 – this sets out the adjustments made due to the requirements of local government accounting regulations particularly in respect of capital and pensions accounting

Note 17 – this sets out total member allowances

Note 18 – this sets out senior officer's remuneration

Note 19 – this sets out the changes to reserves as a result of adjustments for local government accounting regulations

Note 21 – this sets out taxes and grants received

Note 22 – this summarises all of the Council's fixed assets and how they have changed in value over the year

Note 25 – this sets out the Council's investment properties and how they have changed in the year. It should be noted that the SQ and its associated properties are not classed as Investment properties as they are held for regeneration and instead are shown as property in note 22

Note 26 - This sets out the Council's overall need to borrow. This currently stands at £190m. It is illegal to borrow above this figure. This also shows the amount of debt repaid in the year (£1.4m) as required by the Prudential regulations

Note 27 – this sets out all the earmarked and usable revenue reserves

Note 28 – this sets out the unusable reserves. i.e. those required for accounting purposes only

Note 40 – this relates to related parties. Members are required each year to declare any related parties they may have

Note 41 – this sets out details in respect of the Council's pension scheme which is managed by Surrey CC. Unlike most public sector schemes the Local Government Pension scheme is actually backed by investments rather than being a "pay as you go" scheme such as the one the NHS has.

Note 44 – this sets out the Council's investments and loan shown at fair value

Note 46 – This sets out the amount of Council tax and business rates collected from residents and businesses and how it has been shared out between all the different preceptors.

