

Audit and Governance Committee – 26th July 2019

Audited Statement of Accounts 2018/2019

Report of the Executive Director of Corporate Services

1.0 PURPOSE OF REPORT

- 1.1 To provide members with the Letters of Assurance required by the external auditor as part of the final accounts process and to present the Letter of Representation for 2018/2019.
- 1.2 To receive the Audit Completion Report received from Mazars LLP concerning the financial statements for 2018/2019, which provides their opinion on both the Council's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).
- 1.3 To provide an audited Statement of Accounts for 2018/2019, revised to take into account the auditor's findings, for approval by members of the Committee.

2.0 DESCRIPTION OF DECISION

- 2.1 Members are recommended to:
 - 2.1.1 Note the contents of the Letter of Assurance from those charged with governance (Appendix A) and the letter of Assurance from those charged with discharging management processes and responsibilities (Appendix B)
 - 2.1.2 Note the contents of the Letter of Representation (Appendix C)
 - 2.1.3 Note the contents of the Audit Completion Report (Appendix D) provided by Mazars LLP.
 - 2.1.4 Approve the revised Audited Statement of Accounts for the financial year ended 31st March 2019 (Appendix E)
 - 2.1.5 Agree that, should any amendments to the Statement of Accounts be required after the meeting of the Audit and Governance Committee, but prior to the sign off on the 31st July 2019, these be agreed by the Executive Director of Corporate Services in conjunction with the Chair.

3.0 BACKGROUND

- 3.1 The draft accounts were circulated and published online by the 31st May 2019, in line with the statutory deadline.
- 3.2 A Letter of Representation has to be prepared by the Section 151 Officer which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by regulation.
- 3.3 Mazars LLP, who are the Authority's external auditors, are required to report on the final accounts, and report other certain matters to Members prior to an opinion being provided on the Council's accounts.
- 3.4 Mazars LLP has audited the financial statements of the Council in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 3.5 Once the Audit and Governance Committee has noted the contents of this report, Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31st March 2019.
- 3.6 In line with auditing standards, Mazars LLP produces an Audit Completion Report, in which the auditor's opinion is that the financial statements present a true and fair view of the financial position of the Council as at 31st March 2019 and the Group's expenditure and income for the year then ended. The Audit Completion Report 2018/2019 is included at Appendix D on the Agenda. The Audit Completion Report is in addition to the Annual Audit Letter that will be issued in due course.
- 3.7 The revised Statement of Accounts 2018/2019 is set out at Appendix E on the agenda for approval.

4.0 KEY MESSAGES

- 4.1 The full communication is included in the Audit Completion Report, and in summary concludes that:
 - The auditors propose issuing an unqualified opinion, without modification on the financial statements;
 - The auditors anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for the areas which were assessed as inadequate by Ofsted in their report on Children's Services in July 2018.
 - The auditors anticipate completing the work on the Whole of Government Accounts (WGA) submission by the deadline of 13 September 2019 and anticipate reporting that the WGA submission is consistent with the audited financial statements.

- No objections or questions have been received by the auditors from local electors during the audit.

5.0 ADJUSTED MISSTATEMENTS

5.1 The Audit Completion Report at Appendix D identifies the misstatements adjusted by the Council. Members may wish to note the following:

5.2 McCloud Judgement and Guaranteed Minimum Pensions (GMP) liabilities

These issues both relate to potential future pensions liabilities arising from government changes to pensions schemes that have a potential impact on the Local Government Pension Schemes (LGPS).

5.2.1 With regard to GMP, this is a technical issue relating to reforms made to the state pension system in April 2016, removing the facility whereby central government paid top up payments to members with GMP accruals who reached State Pension Age after this date. Given HM Treasury had already put in place interim measures to address the GMP issue through making the LGPS responsible for increases on GMP for individuals reaching state retirement age, and that a High Court ruling had been made in October 2018 supporting the principle of equalisation of GMP by the employer, the Council fully accrued these notional costs in the accounts. This approach was supported by Mazars as part of the audit.

5.2.2 The McCloud judgement, related to a ruling the Court of Appeal had made regarding age discrimination arising from public sector pension schemes transitional arrangements, which had potential implications for the LGPS. Given the Court of Appeal judgement itself did not directly relate to the LGPS and given the likelihood at the time of a government appeal, the Council included this issue as a contingent liability i.e. a potential liability arising with insufficient certainty as to likelihood or value.

Subsequent to the publication of the draft accounts, discussions between the National Audit Office, the external audit firms and the government appointed actuary concluded that there was enough certainty with the McCloud judgement to expect Local Authorities to fully accrue these notional costs within their accounts. This view was given additional weight, when the government confirmed they would not appeal against the Court of Appeal judgement. The Council, therefore, confirmed it would accrue these costs and engaged our appointed actuaries to provide an estimate. In doing so we also elected to update the anticipated asset return values to ensure the accounts represented the most up to date valuation as possible.

The impact of the McCloud amendment and updating the asset valuations was a £27.560m adjustment in the accounts (and a further £6.622m adjustment for the Group position), however, given these are notional estimates of future liabilities, there is no impact on the council tax payer in 2018/19.

5.3 Siglion Fair Value

A new accounting standard has been introduced for 2018/2019 which requires the Council to value its equity investments at “fair value”. The Council initially valued Siglion on an “equity” basis in the draft accounts. During the audit it became apparent that as Siglion was a subsidiary of the Council there was an option to value “at cost”. Whilst this necessitated an amendment of £5.087m to the accounts, given the “at cost” approach is significantly simpler to calculate and so avoids costly revaluations in future years, we deemed it appropriate to elect to make this change. There is no impact on the council tax payer of the change in valuation.

5.4 Other Adjusted misstatements

The other adjusted misstatements were errors identified during the audit process that the Council agreed to amend in order to ensure the accounts represent the most accurate assessment of the Council's position.

5.5 Airport Valuation

The Council were advised by the lead Local Authority for Newcastle Airport, that the external specialists appointed to value the Airport for the new Fair Value requirements had conceded that there were flaws in some judgements made and also some technical errors in relation to tax. In doing so a late revaluation was issued to those Councils, including our own, who have shareholdings in the airport.

The revised valuation was only received on 18th July and at this stage the Council has made the necessary adjustments to the attached accounts but audit work relating to this is still on-going.

6.0 FORMAL OPINION

- 6.1 On the basis of the amendments agreed with the external auditors, Mazars LLP will formally provide an opinion on the amended Statement of Accounts, on or before the 31st July, by which time the Council is required to publish its Audited Statement of Accounts for 2018/2019 and place the audited accounts on its web site appropriately signed by the Chair of this Committee and re-signed by the Section 151 Officer in line with reporting requirements set out in the Accounts and Audit Regulations 2015.