

Decision Maker: GENERAL PURPOSES AND LICENSING COMMITTEE

Date: 28th November 2019

Decision Type: Urgent Non-Executive Non-Key

Title: AUDIT OF FINANCIAL STATEMENTS 2018/19

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Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

1.1 This report sets out the Council's 2018/19 pension fund accounts for approval by Members in accordance with the requirements of the Accounts and Audit Regulations 2015 and provides an update on the audit of the Council's main accounts. The report also details the conclusions and significant issues arising from the work carried out in relation to the audit of the 2018/19 accounts.

2. **RECOMMENDATION(S)**

2.1 **The Committee is requested to:**

- (a) **Approve the Council's pension fund accounts for 2018/19 (Appendix 4);**
- (b) **In accordance with the requirements of the Accounts and Audit Regulations 2015, authorise the Chairman of this Committee to sign and date the pension fund statements on page 40 as a formal record of the Committee's approval;**
- (c) **Note that the audit of the Council's main accounts is not yet concluded (paras 3.5 to 3.9)**
- (d) **Consider the external auditor's reports on the Council's main accounts (Appendix 1) and pension fund Accounts (Appendix 2);**
- (e) **Note the auditor's conclusion on Value for Money (VFM);**
- (f) **Confirm agreement with the auditor's conclusion on their independence and objectivity;**
- (g) **Note the objections to the accounts as set out in paras 3.21 to 3.23;**

- (h) Authorise the Chairman of this Committee to sign the letter of representation for the 2018/19 pension fund audit on behalf of the Council (Appendix 3);**
- (i) Approve the Annual Governance Statement which accompanies the statutory statement of accounts (Appendix 5).**

Impact on Vulnerable Adults and Children

1. Summary of Impact: None arising directly from this report
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Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: Not Applicable
 2. Ongoing costs: Not Applicable
 3. Budget head/performance centre: Council wide
 4. Total current budget for this head: £151m 2018/19 budget (excluding GLA precept)
 5. Source of funding: N/A
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Personnel

1. Number of staff (current and additional): 2,038 fte posts (per 2018/19 Budget) which includes 504 for budgets delegated to schools
 2. If from existing staff resources, number of staff hours: N/A
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Legal

1. Legal Requirement: Statutory Requirement: The statutory duties relating to financial reporting are covered within the Local Government Act 1972, the Local Government Finance Act 1998, the Local Government Act 2000, the Local Government Act 2002 and the Accounts and Audit Regulations 2015.
 2. Call-in: Not Applicable
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Procurement

1. Summary of Procurement Implications: None arising directly from this report
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2018/19 final accounts reflect the financial impact of the Council's strategies and service plans which impact on all of the Council's customers, including council tax payers and users of our services.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Council Wide

3. COMMENTARY

- 3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered and approved by resolution of a Committee or Full Council. Following approval, the Statement of Accounts must be signed and dated by the person presiding at the meeting at which that approval was given.
- 3.2 Before the Committee is able to approve, the Director of Finance must re-confirm on behalf of the authority that he is satisfied that the Statement of Accounts presents a true and fair view of the financial position of the authority at the end of the financial year and of the authority's income and expenditure for that year.
- 3.3 Following approval, but no later than 31st July, the authority must publish the Statement of Accounts together with any audit certificate or opinion, the Annual Governance Statement and the Narrative Statement. Where an audit of accounts has not been concluded before the 31st July the authority must publish a notice stating that it has not been able to publish the Statement of Accounts and its reasons for this. The Statement of Accounts must then be published "as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit".
- 3.4 This is the second year of the new accelerated accounts closure timetable implemented under the Accounts and Audit Regulations 2015. The pre-audited accounts must be signed and certified by the Responsible Financial Officer by 31st May (previously 30th June) and the audited accounts must be published by 31st July (previously 30th September). The draft accounts were approved by the Director of Finance on 31st May 2019 and were published on the Council's website. The audit commenced on 3rd June 2019.
- 3.5 The audit has not progressed as smoothly or quickly as planned and a briefing document was issued to Members of this Committee on 18th July 2019 providing some background and setting out the reasons for the delay in completion of the audit. A 'Notice of Delayed Audit' was published on the Council's website on 31st July 2019.
- 3.6 Ernst & Young LLP (EY) have not yet been able to conclude their audit of the Council's main accounts due to issues relating to asset valuations. In all other respects the audit is now substantially complete. The Council's valuations are carried out by Cushman and Wakefield (C&W) under the responsibility of the Assistant Director – Strategic Property. As set out on page 12 of the auditor's report (Appendix 1) their work identified pervasive and material errors in the external valuation of the Council's land and buildings. These errors covered both the accuracy of base data used to inform the valuations, eg. floor areas, and the key assumptions made by the valuer, eg. estimates of asset yield. C&W have since re-valued 59 properties and the Glades was re-valued by Knight Frank. The external auditor's valuation specialists, EY Real Estate (EYRE) have reviewed a sample of 16 of these in detail and are satisfied that the revised valuations produced are materially accurate.
- 3.7 Under the requirements of the CIPFA Code of Practice on Local Authority Accounting (the Code), items of property, plant and equipment (PPE) are normally revalued once every five years (as a minimum) barring any unusual movement in the value of a particular asset class which may require more frequent or one-off valuations. This is done using a rolling programme and provides sufficient regularity to ensure that the carrying amount does not differ materially from the current value at the end of the reporting period. Investment Properties (IP) are required to be revalued annually to ensure that the carrying value reflects market conditions at the end of the reporting period. The value of PPE and IP represent significant balances in our accounts (£0.6bn). The Code's adoption of IAS16 requires that the carrying value of non-current assets in local authority Balance Sheets are materially accurate at 31st March.

- 3.8 As a result of material variations between the original and revised valuations, combined with a lack of consistency in the type of error, there is no reasonable way to argue that the errors are isolated to the assets reviewed or that the results of the revised valuations could be extrapolated. It will therefore be necessary for the Council to produce and account for the impact on our financial statements, effectively re-stating both the 2017/18 and 2018/19 accounts (prior period adjustment). In order to do this C&W will be required to undertake a full revaluation exercise and re-value 100% of the Council's assets, a further 361 properties as at 31st March 2019. This will then be used as a starting point from which to apply backward indexation to determine values as at 31st March 2018 and 1st April 2017. For assets that have been disposed of during this period, or those that have transferred between asset classes, further valuations may be required.
- 3.9 Officers are in discussion with C&W concerning a timetable for this work to be complete and have provided an initial deadline of 31st December 2019. This is to allow the time necessary for officers to re-state the accounts and for EY to audit those restatements. It is critical that this is concluded prior to 31st March 2020 to avoid any further impact which could, in turn, result in delays in producing the 2019/20 accounts. At the time of writing, C&W have yet to confirm whether this is achievable and a verbal update will be provided at the meeting.
- 3.10 The audit of the Council's pension fund accounts is substantially complete and the pension fund statement of accounts is attached at Appendix 4. At the time of writing, the auditors anticipate issuing an unqualified audit opinion on the pension fund financial statements. In accordance with the Accounts and Audit Regulations 2015 the Director of Finance, as responsible financial officer, has authenticated and signed the amended pension fund accounts and the authorised for issue date has been updated to 28th November 2019.
- 3.11 The Local Government Pension Scheme Regulations 2013 require the pension fund annual report to be published on or before 1st December. The pension fund accounts form an integral part of the annual report and the external auditor's opinion on the pension fund statement of accounts must also be included. Members are therefore requested to approve the pension fund accounts for 2018/19 as set out in Appendix 4.
- 3.12 Although not specifically required by legislation, the annual report should be formally reviewed by Pensions Investment Sub-Committee and authorised by the Chairman and the Director of Finance. This should not be confused with the separate process for the review and approval of the Council's accounts. As the audit had not yet concluded, a draft annual report was reported to Pensions Investment Sub-Committee on 24th July 2019. At its meeting on 27th August 2019, the Pensions Investment Sub-committee agreed to delegate authority for approving the final annual report to the Director of Finance in consultation with the Chairman and Vice-Chairman following conclusion of the audit. This was to enable the annual report to be published before the statutory deadline of 1st December. The annual report will then be presented to the Sub-Committee at its meeting on 3rd December for information.
- 3.13 The external auditors, EY, have issued their report on the main financial statements and accounts for 2018/19 (Appendix 1) and the pension fund accounts (Appendix 2). These reports include the findings from the interim and final audits and recommendations for improvement. As the audit for the main accounts is not yet concluded, both the audit report and the management representation letter included in Appendix 1 are in draft form at this stage. A final audit results report will be presented to this Committee following conclusion of the audit.

- 3.14 In accordance with ISA260, the auditors are required to report all uncorrected audit differences, other than those that they believe are clearly trivial, to those charged with governance. They are also required to report any material misstatements which have been corrected and which they believe should be communicated to the Committee to assist in fulfilling governance responsibilities. A number of amendments will be required to correct for the material errors in the valuation of the Council's long term physical assets in both the current and previous year accounts. A number of other amendments have been made to the financial statements as a result of the audit work which the auditors do not consider to be sufficiently significant to bring to the Committee's attention. None of these matters have an impact on the Council's revenue accounts or general fund balance. There are no non-trivial audit differences which remain uncorrected on either the pension fund or the financial statements.
- 3.15 As required by ISA 260 and other ISAs specifying communication requirements, the auditors are required to inform the Committee of any significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. There are no matters that the auditors wish to draw to the attention of the Committee other than those highlighted in the auditor's report.
- 3.16 The auditor's report also reviews accounting systems and systems of internal control as part of an assessment of the control environment. They are required to report to this Committee any significant deficiencies in internal control. They have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements. They have, however, identified three areas where internal control should be improved and these are included on pages 31 to 33 of Appendix 1 (the same three recommendations are included on pages 21 to 23 of Appendix 2). There are a further two recommendations arising from the valuation of land and buildings and these are included on page 13 of Appendix 1.
- 3.17 Value For Money (VFM) Conclusion
- 3.17.1 The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'. For 2018/19 this is based on the overall evaluation criterion "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". At planning, the auditors identified no significant risks relating to the Council's arrangements. As part of their year-end programme of work they have updated their understanding of the Council's arrangements including consideration of the financial outturn and remain satisfied that there are no significant risks. As a result they expect to issue a conclusion that they are satisfied the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of the resources for the year ended 31st March 2019.
- 3.18 2018/19 is the first year that the audit has been undertaken by EY who were appointed as Bromley's external auditors from 1st April 2018. Public Sector Audit Appointments (PSAA) is responsible for appointing an auditor for the five-year period to 2022/23 to relevant authorities that have chosen to opt into its national auditor appointment arrangements. In August 2017 PSAA wrote to the Council to formally consult on the appointment of Ernst & Young LLP as Bromley's external auditor for 5 years from 2018/19. The appointment was confirmed in December 2017.

- 3.19 The auditor's report details the requirement for annual disclosure of all relationships between EY and the Council that may reasonably be thought to bear on their integrity or objectivity, including those that could compromise independence. In conclusion they have confirmed that, in their professional judgement, EY is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements. They have also confirmed that there are no relationships from 31st March 2018 to the date of their report which they consider may reasonably be thought to bear on their independence and objectivity. This Committee is requested to consider the matters detailed in the external audit report and confirm agreement with their conclusion on independence and objectivity.
- 3.20 The Council's Accounts and related records were made available for public inspection for 30 working days between 3rd June 2019 and 12th July 2019. This is a requirement of the Regulations and must take place prior to the completion of the audit.
- 3.21 An elector in the Bromley borough has raised an objection to the 2018/19 accounts. It is difficult to ascertain from the lengthy and detailed document (47 pages) sent to the external auditor what, precisely, the objection relates to. There are a range of matters set out in the document which primarily relate to waste management and waste collection services but also include grounds maintenance contract, street cleansing contract and civic centre empty offices. These are similar issues to those raised in previous objections but have been extended to include matters relating to the tendering and letting of the new environmental services contract. The objection was submitted on 6th July and the auditor will contact the authority in due course outlining the approach that will be taken.
- 3.22 Members will be aware of the objections made to the 2016/17 and 2017/18 accounts relating to the Council's waste management and waste collection services, and the on-going management of the waste management and street cleansing contracts. The 2017/18 objection also includes areas relating to the grounds maintenance contract as well as civic centre empty offices. At the time of writing these objections have not yet been concluded.
- 3.23 The objections to the 2016/17, 2017/18 and 2018/19 accounts are from the same elector. As a result of these objections the audit for these years cannot be formally concluded and an audit certificate issued.
- 3.24 The Council has very little discretion over the format of its Accounts as they must be presented in the form laid down in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code). The Code is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) under the oversight of the Financial Reporting Advisory Board. The Code requires authorities to produce accounts based on International Financial Reporting Standards (IFRS) while at the same time recognising the particular position of local government where legislative requirements override accounting principles in some areas.
- 3.25 The sections that follow provide a brief commentary on the main points to note in the pension fund accounts.
- 3.25.1 These are the accounts of the London Borough of Bromley pension fund that provides pension benefits for staff, excluding Teachers and staff in the NHS pension scheme. The accounts relate to the whole fund including the assets and liabilities of the scheduled and admitted bodies.
- 3.25.2 During 2018/19 the net assets of the Fund increased by £72m, mainly as a result of investment performance (net return of £81m) offset by other net cash outflows of £9m.

3.25.3 The Fund actuary values the fund every three years and the most recent full valuation was carried out during 2016/17 on the position at 31st March 2016. The actuary found a solvency level of 91%, an increase of 9% compared to the position at the 31st March 2013. The next full valuation (as at 31st March 2019) will be reported to Council in February 2020 following consideration by Pensions Investment Sub-Committee and this Committee. This will determine a revised Fund position and set employer contribution rates for the three years 2020/21, 2021/22 and 2022/23.

3.26 Annual Governance Statement (AGS)

3.26.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. Regulation 6 (2) of the Regulations requires that the AGS should be considered and approved by a Committee or Full Council. The statement must then be published with the Statement of Accounts.

3.26.2 The draft AGS was approved by Audit Sub Committee on 4th June 2019. There has been one change relating issues identified on the valuation of fixed assets and this has been added as a governance issue on page 4. An updated AGS has been circulated to Members of Audit Sub-Committee and this Committee is requested to formally approve the audited AGS which will be published alongside the Statement of Accounts.

4. FINANCIAL IMPLICATIONS

4.1 The final revenue and capital outturn for 2018/19 were reported to the Executive on 21st May 2019. Members are referred to these reports for detailed information on variations from approved budgets.

4.2 At the time of writing, there are no adjustments to the accounts that have an impact on the Council's general fund balance for 2018/19. Accordingly, there is no impact on the level of reserves previously reported to the Executive in the Provisional Final Accounts report on 21st May 2019.

4.3 In line with accounting Regulations, changes arising from the revised asset valuations will be posted through revenue accounts but will be reversed through the Movement in Reserves Statement (MIRS) into unusable capital reserves (revaluation reserve and capital adjustment account).

4.4 Cushman and Wakefield have confirmed that the revaluations will be carried out at no additional cost to the Council. They have also confirmed that they will meet any additional audit costs arising from this work and any reasonable costs incurred by the Council as a result of the 2017/18 and 2018/19 accounts having to be amended.

4.5 Details of estimated external audit fees are set out on page 39 of Appendix 1 and page 25 of Appendix 2. The fee for the pension fund audit is in line with the planned fee (£16k) but the fee for the main accounts is estimated at £212k (an increase of £120k) primarily relating to the required work on asset revaluations and required restatements relating to the McCloud judgement. It is not yet possible to estimate the costs relating to objections to the 2016/17, 2017/18 and 2018/19 accounts.

5. LEGAL IMPLICATIONS

- 5.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be signed and dated by the responsible financial officer by 31st May immediately following the end of the financial year and subsequently to be considered and approved by a Committee of the Council, or by the Council meeting as a whole, before 31st July. The responsible financial officer must firstly re-confirm that the accounts present a true and fair view of the financial position of the authority at the end of the financial year to which it relates and the authority's income and expenditure for that financial year. Regulation 10(1) requires the publication of the accounts and other prescribed information.
- 5.2 Regulation 10(2) sets out the provisions that apply where an audit of accounts has not been concluded before 31st July in that the authority must publish a notice stating that it has not been able to publish the Statement of Accounts and its reasons for this under Regulation 10(2)(a). Regulation 10(2)(b) requires compliance with Regulation 10(1) but substitutes the date of 31st July with a requirement to publish "as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit".

Non-Applicable Sections:	Impact on Vulnerable Adults and Children Policy, Personnel, Procurement Implications
Background Documents: (Access via Contact Officer)	Provisional Final Accounts – Executive 21 st May 2019; Capital Programme Outturn – Executive 21 st May 2019; Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; Service Reporting Code of Practice 2018/19; The Accounts and Audit Regulations 2015; Final accounts supporting papers are held by the Technical and Control (Accountancy) Team. LGPS Regulations 2013 (as amended)