

STATEMENT OF ACCOUNTS 2018-19

To: **Audit and Accounts Committee**

Date: **31 October 2019**

From: **Head of Integrated Financial Services**

Electoral division(s): **All**

Forward Plan ref: **N/a** *Key decision:* **Yes**

Purpose: **This report presents the audited Statement of Accounts for the 2018-19.**

Recommendation: **The Committee is asked to approve the 2018-19 Statement of Accounts.**

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1. BACKGROUND

- 1.1 The Council's Statement of Accounts is produced in accordance with the Code of Practice (CoP) on Local Authority Accounting in the United Kingdom 2018-19 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.
- 1.2 This version of the Statement of Accounts replaces the draft version that was presented to the Committee for review on 11 June 2019 and now requires this Committee's approval.
- 1.3 This report should also be considered in conjunction with the ISA260 report from EY, the external auditors, in respect of the audited accounts.

2. STATEMENT OF ACCOUNTS

2.1 The Statement of Accounts are made up of the following sections:

- The Narrative Report - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on the Council's performance in 2018-19.
- Statement of Responsibilities – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statement and the financial management of the Council.
- The Core Financial Statements – providing a financial snapshot at 31 March 2019 of the Council's position and activity during the preceding year, comprising of:

Comprehensive Income and Expenditure Statement (CIES)

Reports the net cost for the year of all of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

Movement in Reserves Statement (MIRS)

Shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

Balance Sheet

Presents the value of the Council's current and non-current assets and liabilities as at 31 March 2019 with the bottom line effectively being the net worth of the organisation.

Cash Flow Statement

Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.

Expenditure and Funding Analysis (EFA)

Demonstrating to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council's directorates.

- Notes to the Core Financial Statements, which provide further supporting details on aspects of the accounts and which are largely defined by the CoP.
- Accounting Policies – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement of Accounts.
- Local Government Pension Scheme Accounts – details the financial activities relating to the pension fund, together with a snapshot of the assets and liabilities of the fund at 31 March 2019.
- Glossary – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

2.2 There are no significant changes in accounting treatment required by the CoP in 2018-19.

3. THE FINAL ACCOUNTS

3.1 The draft accounts were presented to the Committee late on the 10 June 2018 which was only one day before the Audit Committee meeting. This was the result of certain resourcing pressures experienced by the closedown team, which condensed the time available to prepare the accounts. The delay to the production of the draft accounts did unfortunately limit the amount of time that the document was available for management review before being released for external audit.

3.2 Consequently there are a number of audit amendments that are required to the statements. The most significant adjustments are summarised below. These items have all been adjusted and confirmed with EY in the final set of accounts presented with this report.

- Pension Adjustments (£5.1m CIES and £25m Balance Sheet)** – due to the national McLeod judgement relating to age discrimination on historic changes to certain pension schemes, including the LGPS. Updated actuary valuations were required which have been updated for in the accounts;
- Grant Income (CIES £25.5m)** – affecting the CIES only, this changes ensures that the capital grant income is appropriately accounted for;
- Revenue Expenditure Funded from Capital Under Statute (REFCUS) (£47.5m CIES + MIRS)** – Ensuring that Revenue Expenditure Funded from Capital Under Statute is accounted for consistently;
- Capital Accounting Amendments (£5.4m CIES and £1.9m Balance Sheet)** – a correction required to the split between the revaluation gains and losses charged to the CIES and the Revaluation Reserve, as well as accounting for an asset that was disposed of before the 31st March 2019;
- Cash and Cash Equivalents (£13.2m Balance Sheet)** – an adjustment to correctly classify the cash figure within the balance sheet;
- Non-Current Assets and the Capital Adjustment Account (£15.6m Balance Sheet)** – amended to include an indexation adjustment due to the likely increase in asset valuations at the balance sheet date;
- Movement in Reserves Statements (£11.5m Unusable Reserves)** – a number of adjustments have been required to the MIRS predominantly affecting the General Fund Balance and the Unusable Reserves. The impact being net nil on the General Fund Balance and £11.5m on the Unusable Reserves. These adjustments relate to

the REFCUS and Property Transactions listed above and have no impact on the level of usable reserves reflected within the draft accounts; and

- h) **Borrowing (Short Term Borrowing + Long Term Borrowing)** – an adjustment of £35m was required to ensure that the authorities borrowing portfolio is accurately represented within the statement of accounts

None of these audit adjustments have affected the outturn position of the Council for 2018-19 as they reflect technical accounting adjustments, which can be subjective by nature.

- 3.3 It should be noted that there is one unadjusted audit difference, in relation to the accounting for the PFI Schemes.
- 3.4 The Committee is asked to note the amendments made to the final statements and approve the audited 2018/19 Statement of Accounts.
- 3.5 There does remain an open objection in relation to the 2018-19 accounts, which EY are still to consider. However this is dependent on the conclusion of the objection from 2017-18 that BDO are yet to report on. The position on the objections does not prevent the Committee approving the 2018-19 accounts which have been audited externally. Rather the objections potentially impact on the external auditor's ability to issue their Value for Money opinion on the accounts.

4. LESSONS LEARNT

- 4.1 In light of the challenges experienced in delivering the accounts within the shortened timescales, further improvements have been identified for future years in order to ensure the accounts are prepared in a timely manner and to minimise the level of audit amendments required in future years. In some areas, this will build upon the improvements that have been introduced through ERP Gold. The initial areas identified are summarised below.
- 4.2 **Resourcing** – following discussion at the Audit Committee in September around resources available to close the accounts and manage the audit, a further Closedown Accountant is in the process of being recruited to. If the recruitment is successful this post should be filled early in the new calendar year ready for the preparation of the 2019-20 accounts and audit.
- 4.3 **Greater Use of System Functionality in ERP Gold** – a review of the use of ERP Gold as part of the closedown process to identify whether there are specific areas or processes that can be improved.
- 4.4 **Valuation Approach** – property indexation adjustments have been required again in the 2018-19 accounts to ensure the balance sheet value of property assets is materially accurate at the balance sheet date. The approach of utilising a rolling programme for property valuations with all assets over £5m also being valued does not appear to be provide the required assurance to the auditors. Further consideration needs to be given to this issue and whether an approach to value 100% of property assets each year.
- 4.5 **Accounts Review** – a more in depth review process will be considered which will potentially involve the wider finance team more fully. This could cover the review of the actual accounts document and a more formal review and quality assurance of the underlying working papers.

- 4.6 **Audit Timing** – the start of the audit timing will be discussed with EY for 2019-20 given the resource issues that exist in the Closedown team. The aim being to ensure that the audit starts at the optimal time to enable the Closedown team resources to be focussed on the production of the draft accounts as the 31 May deadline approaches.
- 4.7 A full debrief will be held with EY to explore what went well and where improvements on both sides can be made. The Audit Committee will be kept informed through future update reports on improvements and changes.

5. ALIGNMENT WITH CORPORATE PRIORITIES

5.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

5.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

5.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

6. SIGNIFICANT IMPLICATIONS

6.1 Resource Implications

There are no significant implications within this category.

6.2 Statutory, Risk and Legal Implications

These are set out within sector 3 of this report.

6.3 Equality and Diversity Implications

There are no significant implications within this category.

6.4 Engagement and Consultation Implications

There are no significant implications within this category.

6.5 Localism and Local Member Involvement

There are no significant implications within this category.

6.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Code of Practice 2018-19 (based on IFRS) Statement of Accounts 2018-19 Statement of Accounts working papers. Outturn Integrated Resources & Performance Report for 2018-19	Octagon first floor, Shire Hall, Cambridge