Agenda Item No. 11

Audit Committee – 22 July 2019

Post – Audit Statement of Accounts 2018/19 including Audit Findings Report

Summary of report

This report presents the audited Statement of Accounts along with a summary of these.

The report also includes Grant Thornton's Audit Findings Report on the authority's accounts, including the council's letter of representation, which the council is required to provide to Grant Thornton, and is signed by the Chief Financial Officer and Chair of the Audit Committee.

Recommendations

Audit Committee are requested to:

1. Receive the audit findings report from Grant Thornton on their audit of the 2018/19 statement of accounts and consider the key messages (Appendix 1) **(to follow)** and note that there have been agreed amendments made to the accounts during the audit.
2. Note, consider and endorse the letter of representation attached (Appendix 1).
3. Note and approve the post-audit statement of accounts for 2018/19 (Appendix 2).
4. Note the summary of accounts (Appendix 3).
5. Approve the Chair of the Committee to sign and date the accounts as required under the Accounts and Audit (England) Regulations 2015.
6. Authorise the Chief Financial Officer (CFO) to distribute copies of the audited Statement of Accounts to partners and stakeholders alongside the Annual Governance Statement 2018/19.

James Walsh
S151 Officer (Executive Director, Resources and Transformation)
10 July 2019

Governance

Councils must produce annual accounts and an Annual Governance Statement (AGS) in line with the Accounts and Audit (England) Regulations 2015. In addition, the act requires that the S151 Officer and Chair of Audit Committee make accurate representations to their auditor in respect of the fair presentation of the accounts. The Committee is asked to approve the letter of representation attached (included within the ISA260 report at appendix 1). The regulations require the Statement of Accounts (SoA) and the AGS to be considered and approved by the appropriate Committee of the council, in this case the Audit Committee. This report considers the SoA. The AGS is being considered separately on tonight's agenda.

Resource and Legal Considerations

As at 31 March 2019 the post-audit Statement of Accounts shows a net position of an under spend against budget of £0.404 million. General fund services, (including planned use of general reserves and transfers to and from earmarked reserves) has an overall surplus for the year of £0.443m. This results in net general reserves of £15.669m.

The audit process did not identify any material adjustments affecting the council's accounts; however the audit findings report from Grant Thornton (Appendix 1) outlines a number of adjustments and disclosure amendments. Although none of these have an effect on general fund reserves, the post-audit of Statement of Accounts (Appendix 2) have been updated to correct these misclassifications and disclosures as follows:

Adjusted items:

- The council identified during a control review that capital expenditure on buildings had been incorrectly charged to the wrong assets within the council's fixed asset register. Total capital expenditure over the council's asset portfolio was accounted for correctly in total, however as a result of this one error individual records for 206 assets have been amended to ensure that each asset had their correct allocation of this expenditure.

  This changes a number of tables within the Statement of Accounts including the comprehensive income and expenditure statement (CIES) and balance sheet. Overall the total comprehensive income and expenditure surplus for the year decreases by approximately £4.9 million through a change for depreciation, revaluations and impairments. The balance sheet shows a corresponding reduction within plant, property and equipment and within unusable reserves. These changes have no impact on general reserves, however they do change a number of tables within the Statement of Accounts.

  All other capital expenditure was entered correctly.

- Local Government Pension Schemes (LGPSs) face ongoing uncertainty over compensation costs after the Court of Appeal has ruled that there was an age discrimination in the judges and firefighters pension schemes (McCloud / Sargeant judgements) where transitional protections were given to scheme members.

  In the International Accounting Standard 19 (IAS19) employee benefits report previously issued by the scheme actuary as at 31 March 2019 no allowance was made for the recent McCloud judgement and the report noted that this was due to the uncertainty of how this judgement may affect scheme members past or future service benefits.

Accordingly the scheme actuary has been asked to consider the possible impact to the IAS19 report. The purpose of this is to provide information on the estimated impact of the McCloud / Sargeant judgement on the employer's 31 March 2019 IAS19 liability and current service cost.

The actuary has subsequently concluded that past service costs were understated resulting in the total pension liability increasing by approximately £10.2 million.

The Statement of Accounts have been updated and the changes will have no impact on general reserves, however they do change a number of tables including the CIES and balance sheet.

- Employee expenses for central services within the CIES has been overstated by approximately £16.8 million and other service expenses also for central services has been understated by the same amount. The Audit Findings Report from Grant Thornton makes reference to this error as a disclosure change to the CIES and has no impact on general reserves or elsewhere in the accounts.

There were also a small number of other minor changes to disclosures which have not been highlighted within the audit findings report from Grant Thornton. These were all insignificant and had no impact on the level of reserves.

Judgements made within the accounts

In applying the accounting policies set out within the Statement of Accounts the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that it does not yet have sufficient detail to provide an indication that its assets might be impaired as a result of a need to close facilities and reduce levels of service provision.

The council determined that there was no group relationship with Birmingham Airport Holdings Ltd. The basis for this conclusion was that the council had insufficient voting power to affect any decision changes, had no material transactions and did not provide essential technical information. The investments are classified as available for sale financial assets as a recent valuation is available.

The council has to determine whether the leases that it uses are finance or operating leases. In doing so it utilises five recognition criteria as set out in International Accounting Standard 17 – Leases. These are:

1. the lease transfers ownership of the asset to the lessee by the end of the lease term;
2. the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

3 the lease term is for the major part of the economic life of the asset even if the title is not transferred;

4 at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leases asset; and

5 the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

If two of these criteria are met then the lease would normally be classified as a finance lease and would therefore become part of the council's balance sheet. All other leases are accounted within revenue. The council did not recognise any finance leases during 2018/19.

The council also has to decide whether to apply componentisation for property, plant and equipment. This involved an assessment of each identified component to determine whether it had a significantly different life to other components within the same asset. It was also assessed to determine if the component in question represented a significant element of the whole asset. The council has determined that there are no components to disclose in 2018/19.

For assets where it is difficult to establish a market value, for instance because they are specialist in nature or are rarely sold, the council utilises a depreciated replacement cost (DRC) based on utilising the latest established "Average Building Prices" information obtained from the Building Cost Information Service (BCIS) website as its baseline data, and applies an inflation rate, obtained from the quarterly BCIS "General Cost Indices", to reflect change in prices.

Changes to accounting policies

As reported to Audit Committee in April 2019 there were a number of amendments to the councils accounting policies for 2018/19 mainly as a result of the introduction of new accounting standards.

Identifying key trends

<u>Balance Sheet Performance</u>
Financial indicators are used to identify key trends and highlight the current financial health of the authority. These indicators are also referred to as ratio analysis.

The position of current assets to current liabilities is an important indicator that effectively identifies the ratio of assets that could quickly be converted to cash in order to cover current liabilities. It is generally accepted that a ratio of 2:1 is the minimum an organisation should seek to achieve, however this can change depending on the sector the business operates in, but this level would normally indicate good cash flow performance and financial health.

The council's ratio for 2018/19 is 1.68:1, an increase from 1.03:1 achieved in 2017/18. The increase in this ratio is a result of the repayment of loans that were linked to the upfront pension payment made in April 2017, financed through the use of borrowing from other local authorities. The council would therefore expect this ratio to improve again as the remaining pension payment borrowing is repaid over the next 12 months.

Another important ratio in understanding underlying trends in financial health is the comparison between long term assets and long term borrowing. This seeks to highlight the relationship between the borrowing used to purchase the councils property, plant, and equipment, which are then used to deliver the services of the council over a number of years.

A ratio of 1:1 would be the minimum that would be expected, and would indicate that the council is receiving a benefit from the assets it has purchased that is in line with, or greater than, the repayment of borrowing incurred to fund those assets.

Walsall's achieved a ratio of 2.05:1 for 2018/19, a slight decrease from 2.34:1 achieved in 2017/18. This indicates a healthy relationship between long term assets and borrowing, indicating that the council is still receiving the benefit of assets that it has purchased where there is no longer any associated borrowing.

Plant, Property and Equipment – note 19
Since the introduction of the Academies Act 2010 the council has seen its asset base reduce by approximately £277m as a result of academy conversions, with these assets therefore no longer owned by the council. The transfer of these schools, along with revaluation losses was potentially making it difficult for readers of the accounts to identify the council investment in other buildings and infrastructure.

During 2018/19 no further schools transferred to academy status as set out in note 20 to the Statement of Accounts. The loss of assets through academy transfers since the adoption of the Academies Act in 2010 is one of the reasons that the council's balance sheet is reported as a negative net worth of approximately £153m.

Looking forward

The going concern assumption is a fundamental principle in preparing financial statements. Under this principle, Walsall MBC is deemed to be a going concern for the foreseeable future. The statutory duties undertaken by the council and the method in which funding is raised and provided by central Government are set to continue.

There is no intention to cease trading or seek protection from creditors.

The council has a Medium Term Financial Strategy (MTFS) which is regularly reviewed with the medium term financial outlook updated to reflect the forecast financial position of the council going forward.

In addition to this the CIPFA Bulleting 01 – Closure of the 2017/18 Financial Statements issued in February 2018 sets out CIPFA's view on going concern as follows:

The provisions in the Code of Practice on the going concern requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.

Variance analysis

There have been a number of material changes to the funding received by the council during 2018/19 which were implemented nationally by central Government.

Note 17 to the statement of accounts provides an overview of the grant income that the council receives. The largest change seen during 2018/19 was:

- Total revenue grants broadly remained the same however National Domestic Rate (NDR) Top Up reduced by approximately £7m as a result of changes to business rates baselines, Housing benefits rent allowances grant reduced by approximately £6m as a result of less allowances being paid out and Dedicated Schools Grant increased by approximately £5m. However the majority of this grant is passed directly to schools.
- Total capital grants increased by approximately £6m. This is mainly attributable to an increase of approximately £20m for grants received from the Department for Education for school improvements, partially offset by a reduction in Growth Deal grants of approximately £12m.

Performance management and risk management issues

The 2018/19 outturn provides a sound, stable financial foundation to affect service delivery and continue to drive service improvement. As part of the council's performance management system, managers are set many targets, one of which is to deliver their service targets within the cash limited budget. This has been demonstrated overall in 2018/19, although some services did overspend, with corrective being taken as appropriate.

<u>Value for Money</u>

Audit Committee is presented with a Value for Money conclusion within the Audit Finding Report (Appendix 1) as it was last year. The result of this report is that Grant Thornton is proposing to issue an unqualified Value for Money conclusion.

Equality implications

Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public. The accounts will be available on request in different formats, for example, hard copy, soft copy via the web site, Braille and in different languages.

Consultation

The report is prepared in consultation with various managers.

Background Papers

Various financial working papers, statutory and other guidance.

Author: Richard Walley, Finance Manager - ☎ 01922 650708,
✉ walleyr@walsall.gov.uk