

**Meeting:**           **Audit Committee/Statement of  
Accounts Committee**

Portfolio Area:    Resources

**Date:**             **27 November 2019**

## **2018/19 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT**

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### **1        PURPOSE**

- 1.1        To present the External Auditor – Ernst & Young LLP’s Annual Report for consideration and approval and the audited 2018/19 Financial Report including the Statement of Accounts (SOA).

### **2        RECOMMENDATIONS**

- 2.1        That the Annual Report to those charged with Governance for 2018/19 be approved (Appendix 1).
- 2.2        That the Council's Letter of Representation be approved (Appendix 2 to follow).
- 2.3        That the Financial Report including the Statement of Accounts 2018/19 be approved (Appendix 3).
- 2.4        That the Annual Governance Statement is approved (Appendix 4).

### **3        BACKGROUND**

- 3.1        This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's report will be produced by the Council's External Auditors, Ernst & Young (Appendix 1).
- 3.2        The 2018/19 fourth quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive on 10 July 2019. Following the external audit there have been no changes to the yearend financial position for either fund.
- 3.3        **Changes affecting the 2018/19 Statement of Accounts**
- 3.3.1      The Statement of Accounts (SOA) has to be compiled in accordance with current International Financial Accounting Standards, statutory requirements, and CIPFA published guidance. The standards and guidance may change year on year.

3.3.2 In 2018/19, there were two **new accounting standards** applicable to the 2018/19 Statement of accounts:

IFRS 9 - Financial Instruments and,

IFRS 15 - Revenue from Contracts standards

IFRS 9 covers the classification of the authority's investments and the treatment of any arising impairment losses. The type of investments held by the Council were unaffected by this new standard. Officers reviewed the income streams from revenue contracts which may have fallen within the scope of IFRS 15 and concluded that the amounts were not material. This view has been accepted by the auditors.

3.3.3 On 7<sup>th</sup> November 2018 the Council set up a limited liability partnership – Queensway Properties (Stevenage) LLP. The Council holds a 99.9% of the partnership and as such Group accounts have been included in this year's Statement of Accounts. Members were offered training on Group Accounts prior to this committee to aid their understanding of any issues raised by the external auditor.

3.3.4 The **Annual Governance Statement** is no longer included within the Financial Report. This is now shown as a separate document and is included at Appendix 4 to this report. This Committee is required to approve the SOA and the Annual Governance Statement.

3.3.5 The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix 2 to follow on completion of the audit).

## **4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS**

### **4.1 Statement of Accounts**

4.1.1 At the time of writing this report the audit of the 2018/19 Statement of Accounts had yet to be completed. As such the latest "in audit" version of the accounts, the 2018/19 Financial Report including the Statement of Accounts is Appendix 3 to this report. Any subsequent audit changes will be notified at the meeting on 27 November 2019.

4.1.2 One misstatement regarding the valuation of the swimming pool has not been amended. The asset has been valued at £4.6M and discounted (down to £3.66M) to reflect that the swimming pool is managed by a third party and the Council does not have direct control of the asset. This is consistent with the valuation treatment in prior years and consistent with other assets of this type. As such, officers believe that the valuation should not be adjusted and that the approach taken by its external valuer is reasonable. Ernst Young consider that this provides a lower valuation than would be expected.

## 4.2 Balance Sheet

4.2.1 The Council's Balance Sheet as at the 31 March 2019 showed total reserves of £535.8 Million, a decrease of £26.9 Million over the Balance Sheet as at 31 March 2018. The decrease in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves.

### 4.2.2 Useable Reserves

4.2.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. As at the 31 March 2019 the Council's useable reserves decreased by £1 Million to £57.8 Million.

4.2.4 Table 1 below details the movement in useable reserves.

<b>TABLE 1:</b>	<b>Balance at 31 March 2018</b>	<b>Increase/ (Decrease) in year</b>	<b>Balance at 31 March 2019</b>
<b>Revenue Reserves:</b>			
General Fund Balance	£5,465,117	(£671,056)	£4,794,061
Earmarked General Fund Reserves	£2,849,582	£1,055,560	£3,905,142
Housing Revenue Account	£24,114,664	(£2,812,605)	£21,302,059
<b>Total Revenue Reserves</b>	<b>£32,429,363</b>	<b>(£2,428,101)</b>	<b>£30,001,262</b>
<b>Capital Reserves:</b>			
Major repairs reserve	£9,264,380	£1,655,413	£10,919,793
Capital Receipts Reserve	£15,422,325	(£232,584)	£15,189,741
Government Capital Grants Unapplied	£1,730,482	(£58,723)	£1,671,759
<b>Total Capital Reserves</b>	<b>£26,417,187</b>	<b>£1,364,106</b>	<b>£27,781,293</b>
<b>TOTAL REVENUE AND CAPITAL RESERVES</b>	<b>£58,846,550</b>	<b>(£1,063,995)</b>	<b>£57,782,555</b>

4.2.5 All usable cash resources have been allocated, so unless earmarked reserves are no longer needed in the future, there are **currently no cash resources available** for new projects. In addition the capital strategy requires external borrowing and currently £401k of General Fund capital schemes are on hold pending matching capital receipts.

### 4.2.6 Unusable Reserves

4.2.7 Non useable or unusable reserves are non-cash reserves and include (but not exhaustively) the value of:

- Gains and losses from changes to the value of the Council's assets shown in the **Revaluation Reserve**.

- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the **Capital Adjustment Account**.
- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the **Pension Reserve**.
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance Sheet date shown in the **Accumulated Absences Account**.
- The **Collection Fund Adjustment Account** which holds the timing difference between the recognition of Council Tax and Non Domestic Rates (NDR) income in the Income and Expenditure Statement as it falls due from council tax payers and business rate payers, compared with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund (Council Tax and NDR), to match those calculated and approved at budget setting for that financial year.

4.2.8 The Council's unusable reserves decreased by £25.8Million to £478.1Million as at 31 March 2019 due to downward revaluation losses on Housing stock and an increase in the pension liability. Movements in the unusable reserve do not affect the Council tax payer or HRA tenant.

#### 4.3 **External Auditor's Conclusions**

4.3.1 As the Council's appointed Auditor, Ernst & Young LLP is required to review and report on the Council's financial statements and provide a value for money conclusion. Their draft findings and ISA 260 report are included at Appendix 1.

4.3.2 At the time the time of writing the report, no objections were received by electors to the 2018/19 accounts.

4.3.3 No requests were received for any further details on the Council's financial records.

### 5 **IMPLICATIONS**

#### 5.1 Financial Implications

The updated Accounts for 2018/19 are financial in nature. As this document is finance related, the financial implications are contained therein.

#### 5.2 Legal Implications

5.2.1 The requirement under the Accounts and Audit Regulations England (2015) is for the Council to publish draft accounts by 31 May following the year end and the Council's 2018/19 draft accounts were published on 31 May 2019. The external audit of the draft accounts has been delayed by our external auditors, Ernst Young (EY) LLP due to EYs resourcing pressures. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. As such the Council was unable to publish its audited accounts by the end of July.

The Audit and Statement of Accounts Committees were subsequently rescheduled from July to the 27 November 2019.

## **BACKGROUND PAPERS**

4th Quarter General Fund and HRA report 10 July 2019 Executive

4th Quarter Capital monitoring report 10 July 2019 Executive

## **APPENDICES**

Appendix 1 – Annual Report to those charged with Governance (draft)

Appendix 2 - Letter of Representation (TO FOLLOW)

Appendix 3 – In Audit Statement of Accounts 2018/19 (Final Post audit to follow)

Appendix 4 – Annual Governance Statement

Appendix 5 – Glossary of Audit Phrases