

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT & GOVERNANCE COMMITTEE – 24 JULY 2019

Title of report	ANNUAL STATEMENT OF ACCOUNTS 2018/19
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Purpose of report	For the Committee to consider and approve the Annual Statement of Accounts for 2018/19.
Reason for Decision	To comply with the Accounts and Audit Regulations
Council Priorities	Value for Money
Implications:	
Financial/Staff	No direct implications.
Risk Management	The presentation of audited accounts giving a true and fair view assists in maintaining the council's financial standing and reputation.
Equalities Impact Screening	No impact.
Human Rights	None identified.
Transformational Government	No direct implications.
Consultees	External Auditors (KPMG)
Background papers	<p>Working papers held in the Financial Planning section.</p> <p>Statement of Accounts 2018/19 (unaudited) – https://www.nwleics.gov.uk/files/documents/draft_statement_of_accounts_2018_19/Statement%20of%20Accounts%20310519%20%28note23%20updated%29.pdf</p> <p>Public Audit Notice 2018/19 - https://www.nwleics.gov.uk/files/documents/notice_of_inspection_2018_19/Notice_of_inspection_201819.pdf</p>
Recommendations	(A) THAT THE COMMITTEE APPROVES THE ANNUAL STATEMENT OF ACCOUNTS

	<p>(B) THAT THE COMMITTEE CHAIR IS AUTHORISED TO SIGN THE ACCOUNTS AS APPROVED</p> <p>(C) TO DELEGATE AUTHORITY TO THE COMMITTEE CHAIR AND SECTION 151 OFFICER TO APPROVE ANY MINOR NON MATERIAL AMENDMENTS, AS AGREED WITH THE AUDITOR, TO THE ACCOUNTS ON BEHALF OF THE COMMITTEE</p>
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1.0 BACKGROUND

- 1.1 The unaudited accounts were signed off by the Head of Finance and Section 151 Officer on 31 May 2019 in line with statutory requirements. The final audited version of the Statements are due for approval by 31 July 2018, again, in line with statutory requirements.
- 1.2 The Statement of Accounts should provide electors, those subject to locally levied taxes and charges, members of the authority, employees, other stakeholders and interested parties with clear and comparable information about the authority's finances.
- 1.3 The accounts of local authorities in the United Kingdom are required to be developed in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'). This must be followed to meet the requirements of the Accounts and Audit Regulations to 'present a true and fair view' of the financial position of the authority.
- 1.4 The Code is based on International Financial Reporting Standards ('IFRS'), amended as necessary in respect of legislation governing local authorities.
- 1.5 The Council prepares its accounts in line with the 'Code' (and therefore IFRS) and its local accounting policies that were agreed by the Committee at its March 2019 meeting.
- 1.6 The format of the accounts is effectively prescribed and is set out as follows:

Section of Statements	Purpose
Narrative	To provide the reader with an understanding of North West Leicestershire as a place, the council and its priorities, the wider economic background and the non-financial and financial performance of the council in 2018/19
Statement of Responsibilities	Shows the responsibilities of the Council and Chief Financial Officer for these accounts
Comprehensive Income & Expenditure Account (I&E)	Presents the cost of each functions and how they were financed. This is a core statement
Movement in Reserves Statement	Presents the movement in reserves during the year between usable and unusable reserves, and the actual change to the reserves after all adjustments. This is a core statement
Balance Sheet	Presents all of the Council's assets and liabilities at the year end, both long and short term. This is a core statement
Cash Flow Statement	Sets out the flow of cash into and out of the Council. This is a core statement
Notes to the Financial	These explain in more detail the makeup of the various

Statements	amounts included in the core statements.
Accounting Policies	Technical explanation of main policies and assumptions used in preparing the accounts
HRA (Housing Revenue Account) Income & Expenditure Account	This statement shows income and expenditure regarding Council dwellings
Collection Fund	Sets out the transactions relating to the collection and distribution of Council Tax and National Non-Domestic Rates (NNDR), or Business Rates as they are more commonly known
Special Expenses Accounts	Summarises spending in the special expenses areas of the district with details of how this is paid for
Auditor's Report	This is the report of the external auditors, the Audit Commission, on the accounts for the year.

- 1.7 The Statements must comply with the Code so that comparisons can be made across different authorities and for this reason it is essential that authorities define individual costs in line with the Service Reporting Code of Practice (SERCOP). There should also be good notes and explanations to the accounts to aid understanding and, although by nature a technical document, the notes should be concise and understandable.
- 1.8 In preparing the draft statements, a restatement was made core statements to correct further errors identified in the capital accounting of the Council's Council Housing Stock. At the time of writing this report, the external auditors are in the final stages of auditing this position. Further details can be found in section 2 below.
- 1.9 During the audit of the draft statements, information surrounding the value of the council's pension liability has required an adjustment to the figures contained in the draft statements. The final statements at Appendix A include revised figures in respect of pensions. More detail can be found surrounding the reasons for this in Section 3.

2.0 RESTATEMENT IN RESPECT OF THE COUNCIL'S HOUSING ASSETS

- 2.1 As part of the audit of the 2016/17 accounts and issued auditor's report, a commitment was made by the Head of Finance and Section 151 Officer to undertake a review of the councils capital position in response to there being recurrent issues identified by the external audit team in respect of capital accounting during the audit of the accounts between 2014/15 and 2016/17.
- 2.2 During the audit of the 2017/18 financial statements, errors were identified in the methodology used to prepare the value of council's housing stock.
- 2.3 The error identified concerned capital accounting, going back to 2007, and the treatment of revaluation gains (which occur when the annual valuation is higher than the previous years) and how they are accounted for. The issues identified did not affect the General Fund or HRA or the amount of useable reserves we hold - the errors are in relation to the revaluation reserve and capital adjustment account, which are "unusable reserves" of unrealised gains.
- 2.4 Amendments were made to the 2017/18 draft statements to correct the historic issues and in year revaluation accounting entries. This led to a delay in the completion of the 2017/18 audit and publishing of the final version of the annual accounts.

- 2.5 The final position presented in the council's 2017/18 final accounts in October 2018 included a restatement of the Council's core statements, HRA Accounts and Notes and other relevant Notes, including an additional note to detail the reasons for the prior period adjustment (Note 39). The revised 2017/18 accounts were audited and an unqualified opinion was issued in October 2018.
- 2.6 In order to further improve the methodology in preparing the financial statements the Council opted to move away from its manual spreadsheet approach, which is inherently more vulnerable to error, and to a best practice, computerised Fixed Asset Register software package. In moving to this new system further material errors were identified in the balances of the Revaluation Reserve and the Capital Adjustment Account.
- 2.7 As before, the issues did not affect the General Fund or HRA or the amount of useable reserves we hold (the errors are in relation to the revaluation reserve, which is an "unusable reserve" of unrealised gains).
- 2.8 A restated position was presented in the draft 2018/19 statements and subsequently audited by the council's external auditors Mazars LLP. At the time of writing this report, the external auditor is in the process of finalising their testing and will update the Committee at its meeting on 24 July 2019.
- 2.9 The statements in Appendix A include this restated position on all core statements. Note 40 sets out the adjustment in detail.
- 2.10 To track the effects of the restatements requires a reader to compare the Balance Sheet and Comprehensive Income and Expenditure Statements for the 2017/18 financial year within the:
- Published final accounts for 2017/18; and
 - Final accounts for 2018/19 (Appendix A)

3.0 RESTATEMENT IN RESPECT OF THE COUNCIL'S PENSION LIABILITY

- 3.1 The Council has a pension liability on its balance sheet due to the scheme being in deficit. A pension scheme is in deficit if it doesn't have enough money to pay the pensions of the people who are entitled to receive one in the future (based on the level of future contributions and the performance of scheme assets).
- 3.2 The council's pension contribution rates are based on a future service rate which is the cost of paying for future service as it accrues. The Council also pays an adjustment to pay off the deficit over 20 years – this additional amount has increased over the last 3 years, from £131k in 17/18 to £349k in 19/20. The next triennial valuation rate will confirm the next three years additional contributions and the contribution rate itself – we will receive this later this year.
- 3.3 The Council receives an annual 'IAS19' report that details an actuarial valuation of the pension scheme at the end of the financial year. The report for 2018/19 was received in April 2019 and was used to report the council's position in respect of pensions in the annual accounts.
- 3.4 In order to produce the IAS19 reports for the Accounts by mid-April the Actuary use estimates of the value of Pension Fund assets as at 31 March 2019. The actual asset values are not known for many of the assets and pooled investment funds until May. However this year due to significant variations in asset valuations the difference between the estimated position at 31 March 2019 included in the IAS19 report and the actual position confirmed in May 2019 represented a material movement.

- 3.5 In addition to this, the Local Government sector has been affected by an accounting issue that affects the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary had not made an allowance in its valuation for either of these cases and early guidance given to councils was that the impact would not be material.
- 3.6 Subsequent to this, an additional valuation was obtained from the actuaries in July 2019 confirming that the combined effect of these cases on the valuation of the pension deficit is material.
- 3.7 As such, the final accounts presented at Appendix A include an adjusted position for the council's pension liability which is in line with actual performance for the 2018/19 year and the GMP and McCloud rulings.

4.0 OTHER CHANGES TO ACCOUNTS

- 4.1 At the time of writing this report, aside from those outlined in section 3 surrounding the council's pension liability, there are no further audit adjustments to the draft accounts required by the auditors.
- 4.2 It is therefore recommended to delegate authority to approve any minor non-material amendments (as agreed with the external auditors) to the Head of Finance and Section 151 Officer in liaison with the Committee Chair.