

FINANCE, AUDIT AND RISK COMMITTEE
29 JULY 2019

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2018/19

REPORT OF : *SERVICE DIRECTOR- RESOURCES*

EXECUTIVE MEMBER: *NON-EXECUTIVE FUNCTION*

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to ask Finance, Audit and Risk Committee to approve the audited Statement of Accounts for 2018/19. The Annual Statement of Accounts has been subject to external audit and is enclosed with the report as Appendix A.

2. Recommendations

- 2.1 That the 2018/19 Annual Statement of Accounts, as set out in Appendix A, be approved and signed by the Chairman.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of the Statement of Accounts by no later than the 31 July.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None. The Authority is required to prepare an annual Statement of Accounts and must follow accounting practices guidance issued by the Secretary of State and follow 'proper practices' governing the preparation of the annual Statement of Accounts (Section 21 of the Local Government Act 2003).

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the Statement of Accounts is not required.

- 5.2 The draft Statement of Accounts was published on the Council's website at the end of May 2019. A copy was also printed and provided at the Customer Service Centre. Members of this Committee were provided with details of where the Accounts could be found and encouraged to ask any questions about the content.
- 5.3 The accounts are subject to audit by the Council's External Auditors, Ernst and Young LLP.
- 5.4 Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask questions. This opportunity was advertised in accordance with the regulations. No one took up this opportunity.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1 The Council is legally required to produce a statement of accounts detailing the financial activities for the year and overall financial position as at 31 March. It has a statutory responsibility to publish its draft Statement of Accounts by 31 May.
- 7.2 The Council's external auditors, Ernst & Young LLP, arrived as scheduled in early July to start the accounts audit and their report will be presented to Members at this meeting tonight.
- 7.3 Regulation 10 of the Accounts and Audit Regulations 2003, states the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. Under the constitution, the Finance, Audit & Risk Committee has responsibility to "review and approve the Statement of Accounts".

8. RELEVANT CONSIDERATIONS

- 8.1 A draft of the audited version of the Statement of Accounts is attached at Appendix A. At the time of publishing this report, the majority of the audit work was complete but there were still some areas to be completed. This means that there is still scope for further changes prior to the meeting. If there are any changes then these will be presented either as a verbal update (if they are very minor) or an addendum report.
- 8.2 The Service Director- Resources (as the Council's Chief Finance Officer) will have signed the Statement of Responsibilities (page 1 of Appendix A) prior to the meeting. This is to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2019 and its income and expenditure for the year then ended. Subject to the Committee's approval of the Statement of Accounts,

the Service Director- Resources and the Chairman of the Committee will sign the Letter of Representation on behalf of the Council. The wording of the Letter of Representation can be found in the Audit Results Report document, which will be presented by Ernst & Young this evening. The Chairman will also sign page 1 of the Statement of the Accounts to confirm that they have been approved by the Committee.

- 8.3 Committee members have had the opportunity to review the draft Statement of Accounts. The following paragraphs detail the changes between the Draft and Final versions. Where changes have been made these are highlighted in green. The version of the accounts that will be signed will have these highlights removed.
- 8.4 There are a number of changes throughout the accounts, but they all relate to changes in relation to pension fund estimates. These estimates are provided by the actuary to the Hertfordshire Local Government Pension Fund. In order to meet the timescales for producing the draft Statement of Accounts, the actuary uses a combination of known data, estimates and future forecasts. Whilst improved information becomes available on some of the estimates as time passes, there should not be a need to update for these. However if the improved information would result in a material change to the numbers in the accounts (greater than £1m) then the accounts should be adjusted. With pensions it is not possible to know the impact without an updated valuation report from the actuary, and once the report has been received (and paid for) it generally then makes sense to update the accounts to reflect the latest information. The Council requested an updated valuation report in respect of the issues described in the following two paragraphs. At the same time the new valuation report will also reflect where new information has become available that improves the estimates that have been made. The accounts have been updated to reflect the cumulative impact of all these elements.
- 8.5 The Local Government Pension Scheme (LGPS) introduced a new career-average (CARE) benefit structure with effect from 1 April 2014. For members who were 10 years or less from normal retirement age on 1 April 2012 (i.e. aged 55 or above), they were allowed to continue to earn benefits based on final salary (i.e. in line with the old scheme that is generally more generous). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters (the Sergeant case) and the judiciary (the McCloud case) resulted in unlawful age discrimination. The Government sought permission to appeal this judgment, but in June 2019 this was declined by the Supreme Court. Whilst it will take time for the implications of this to be fully resolved, the forecast of future payments has to reflect that this will now need to be more generous for those that were aged under 55 in 2012 to remove this age discrimination.
- 8.6 Between 1978 and 1997 employers were able to contract out of the second tier state pension, if their pension scheme provided benefits that were at least equivalent to that second tier pension (a Guaranteed Minimum Pension of GMP). To reflect that the employee would not get the second tier state pension, the employee and the pension scheme paid a lower national insurance contribution rate (known as contracting-out). GMPs ceased in 1997 and contracting-out was

abolished in 2016. A high court ruling in October 2018 determined that GMP benefits must be equalised so that they are the same for both men and women. An estimate therefore needs to be made of the impact of this.

- 8.7 The Narrative Report within the statement of accounts provides an overview of how the accounts are presented and highlights the most significant matters.
- 8.8 Officers are not aware of any events that have occurred since the year end that provide additional evidence of conditions that existed at the 31 March 2019 or materially affect the amounts included in the Statement of Accounts. In particular there has not been any subsequent event that would require an amendment to the contingent assets and liabilities listed in the accounts.
- 8.9 The Annual Governance Statement (AGS) is also recommended to be approved by Finance, Audit & Risk Committee at this meeting tonight. The Council has a legal duty to ensure that the publication of the Statement of Accounts is accompanied by the publication of the Annual Governance Statement.

9. LEGAL IMPLICATIONS

- 9.1 The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published by the deadline date of 31 July 2019.

10. FINANCIAL IMPLICATIONS

- 10.1 The outturn reports were presented to Members in June. These provided the end of year position of the general fund, other reserves and capital expenditure. None of the changes to the Statement of Accounts identified from the audit have resulted in any change to the outturn position reported.
- 10.2 The Council has had to pay for an additional pension fund valuation report to reflect the changes described in paragraphs 8.4 to 8.6. The cost of this is £1,350.
- 10.3 Ernst and Young have said that they will be looking to charge the Council additional costs for audit work. These have been stated as being in relation to:
 - Additional work in relation to pensions, linked to the changes detailed in paragraphs 8.4 to 8.6.
 - As the Council went through a restructure between 2017/18 and 2018/19 this required some restatements to the accounts which then had to be audited.
 - Some additional work in relation to information provided from Officers for some detailed transaction testing.

A view will be taken as to whether to agree these additional costs when further justification is provided (particularly in relation to the third point) and confirmation of the actual amounts.

11. RISK IMPLICATIONS

- 11.1 The process of compiling the Statement of Accounts is a control mechanism to help mitigate against the risk of poor financial management and is a way the Council can demonstrate to the public how it has managed its resources and acted in its responsibility as a steward of public funds.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications arising from this report.

15. APPENDICES

- 15.1 Appendix A- Draft Audited Statement of Accounts 2018/19.

16. CONTACT OFFICERS

- 16.1 Antonio Ciampa, Accountancy Manager, Tel 474566,
email Antonio.Ciampa@north-herts.gov.uk
- 16.2 Ian Couper, Service Director- Resources, Tel 474243,
email Ian.Couper@north-herts.gov.uk

17. BACKGROUND PAPERS

Draft Statement of Accounts

<https://www.north-herts.gov.uk/sites/northherts-cms/files/UnAudited%20Statement%20of%20Accounts%202018-19.pdf>