

Report for: Corporate Committee 2 December 2019

Item number: 9

Title: Statement of Accounts Update

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. To present an update to the Corporate Committee on the audit of the Statement of Accounts for 2018/19, and on progress with objections to the accounts relating to prior years.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee consider the contents of this report and any further oral updates given at the meeting by Council officers or the Council's external auditor BDO.
- 3.2. Notes the contents of the external auditor's final audit completion report at Appendix 1, including the agreed management responses to the recommended actions contained in Appendix 1.

4. Reason for Decision

- 4.1. Making arrangements for proper administration of financial affairs under section 51 Local Government Act 1972 & Approving statements under The Accounts and Audit Regulations 2015 and any amendment or re-enactment of the Regulations and considering the external auditor's report on issues arising from the audit of the accounts or any other concerns relating to accounting policies are the responsibility of the Corporate Committee.

5. Other options considered

- 5.1. None.

6. Background information

- 6.1. At its meeting of 25 July 2019, the Corporate Committee was presented the Council's draft statement of accounts for approval. In this meeting, Council officers and the Council's auditor reported to the committee that the audit of the Council's accounts was unlikely to be concluded by the new 31 July deadline, due to ongoing audit work, primarily around the testing the auditors were undertaking on the Council's assets (commonly referred to as property plant and equipment, or PPE).
- 6.2. The Council published an unaudited version of its accounts on 31 July, to fulfil its statutory reporting requirements, with a notice to explain why the audit had not concluded.
- 6.3. In the July meeting Officers agreed to report back to the Corporate Committee on the progress with the audit in the September 2019 meeting, however as agreed with the Chair of the Committee as work had not concluded in September, the update has been brought to this meeting instead.
- 6.4. Following the completion of the audit, the final accounts were signed off on 22 November and published on the Council's website:
<https://www.haringey.gov.uk/local-democracy/performance-and-finance/statement-accounts>

Background to 2018/19 Audits Nationally:

- 6.5. The audit system within local government is widely recognised to be under significant pressure, with senior commentators referring to the system as 'broken'. Local government audit previously operated on a timeline that was 50% longer, with draft statements produced on 30 June each year, and final audited accounts produced on 30 September. The first year of shortened deadlines was 2017/18 (the prior year), and Haringey and BDO met this deadline in the first year of it being in operation.
- 6.6. The timescales for the audit of NHS and local government bodies now largely overlap, all having to take place in the period April-July each year, squeezing resource into a short time period, creating resourcing issues for audit firms.

- 6.7. Audit fees are set by a central body on behalf of all Councils, and this year, Haringey's core audit fee has been reduced by 23% compared to the previous year. This results in a saving of approximately £40k to the council. The current audit appointment period is for the audit of the financial years 2018/19-2022/23 (five years).
- 6.8. Public Sector Audit Appointments Ltd, the central body that appoints local government auditors, published a notice on their website on 12 August which stated that more than 40% of audits for the sector as a whole were not concluded by 31 July. A link to this publication is below.
- <https://www.psa.co.uk/wp-content/uploads/2019/08/PSAA-press-release-2018-19-audited-accounts-1.pdf>
- 6.9. Council officers understand that of the London Boroughs between 14-20 (out of 33) were not completed by 31 July, (not all boroughs responded to a survey detailing this). Of those Boroughs audited by BDO, officers are only aware of 1 which was completed by 31 July.
- 6.10. This year's audit has coincided with a year that has been challenging for the external audit industry generally. There have been a number of reported external audit failures which have resulted in additional scrutiny of the sector, and enhanced requirements for the assurance required from audited bodies. This has means that auditors have to complete work such as testing and challenging management assumptions which takes longer to complete.

Haringey's Audit of the 2018/19 accounts, and issues identified:

- 6.11. Other than the issues highlighted on pensions and PPE (further below), the audit report presented to the Corporate Committee on 25 July was largely a positive report, which showed improvement from the previous year. The audit report did not suggest any changes that would impact on the Council's outturn position, or usable reserves figures, and the ongoing PPE testing, should not impact on this.

Audit Team resourcing and audit progress:

- 6.12. The audit team experienced resourcing pressures, which is understandable, given that audit fees have been reduced. However, dealing with less experienced auditors working on site over a longer time period has generated additional pressures for the Council due to the officer time taken up during the audit. The net saving on audit fees for 2018/19 was approximately £40k, however it is reasonable to anticipate that a sum in excess of this has been expended in terms of the time Council officers across the organisation during this year's audit.

6.13. The audit team met with Council Officers on a weekly basis during the months of June and July. These are standard practice during audits, and are held to escalate points of concern for the auditors with Officers in order for action to be taken. No significant causes for concern were escalated in these meetings.

Pension Issues

6.14. There was a degree of uncertainty in the production of the accounts due to two ongoing pensions legal challenges which were taking place during the summer:

- **The McCloud case** is one of these, which has the potential to increase the Council's pension liabilities by around 0.3%, or £6m in total (£7m for the group accounts). This case relates to a protection granted to some (but not all) members of public sector pension schemes when the schemes changed from final salary to career average in 2014/2015. On 27 June a court ruling on this case took place, meaning that it was more likely that these liabilities would emerge. Due to the timing and uncertainty around this case, Council Officers had initially agreed with BDO that this would not be incorporated into the Council's accounts, to avoid having to correct the statements following publication. However, after further review from BDO, they advised that the Council's accounts would have to be updated to incorporate the potential additional liabilities (which was then done).
- **GMP Equalisation** is a case that affects all UK Pension Schemes (i.e. not just the public sector). The courts found that Guaranteed Minimum Pensions (GMP) must be equalised, and there is not clarity on whether this be funded by the Government or pension funds going forwards. BDO have estimated that this could increase overall liabilities by £5m for the Council, and £6m for the group accounts (a 0.3% increase). The Council Pension Fund's actuary had initially advised that the potential liabilities arising from this would not be included in the fund's valuation in the Council's accounts, however, BDO have confirmed that they did not agree with this treatment. Officers have requested that the actuary include this new potential liability from 2019/20 going forwards. BDO has reported this as an uncorrected misstatement.

Audit of Property Plant and Equipment (PPE)

6.15. A number of issues regarding the audit of PPE came to light late in the audit process in the last two weeks in July, and in early August. BDO had to complete additional rounds of testing, to gain the assurance before they were able to sign off the accounts. A number of samples took place of different subsets of assets, the majority of which were satisfactory and provided the required assurance to BDO, however some discrepancies were identified on the floor areas (known as Gross Internal Areas/GIA) for one subset of assets, which consists mainly of Council schools.

6.16. Due to the discrepancies in GIAs identified, BDO advised that they had to undertake further testing on all assets within this subset that had significant values: this isolated the issue to a group of 26 assets. The Council worked with BDO and the Council's valuers to provide the necessary information, which involved the Council's valuers carrying out inspections of some of these assets, which took time to complete, particularly as this work partially took place in August when many schools were closed. This piece of work was completed satisfactorily in mid September, and concluded that the Council's PPE was understated by £2.8m, which will be corrected in the next set of accounts produced.

Concluding the audit:

6.17. Council officers had requested that BDO work towards a sign off deadline of 30 September. The final audit file was submitted by BDO to their internal review teams prior to this deadline, however the review found that the audit team had not completed sufficient testing for several areas of the Council's transactions and balances, and that further work would need to be completed by the auditors before they could sign off the accounts.

6.18. A number of new audit queries were raised post the end of July on a variety of different areas of the Council's accounts. A small number of these request have resulted in additional changes required to the Council's accounts, which presented in the audit report at Appendix 1.

Steps going forwards

6.19. The current accelerated national timeline for local government audits is arguably unworkable and does not provide value to the sector and its stakeholders. The Council will make representations on this point via organisations such as CIPFA, London Councils, and the LGA, to the relevant national organisations.

6.20. The Pensions issues which arose were largely out of the both of the Council's and BDO's hands. The McCloud judgment is not anticipated to have a remedy determined by the courts until at least 2021, and GMP Equalisation is also not anticipated to be clarified within the next year. The Council and BDO have agreed on a treatment for both matters moving forwards that take a 'most prudent' approach, however there is uncertainty which will pertain for some time.

6.21. The areas of PPE which required the further work which took place in August and September are 'Other Land and Buildings' which are valued using a methodology called 'Depreciated Replacement Cost' (DRC), and total approx £774m in the Council's accounts. DRC undertakes a valuation of assets using a complex set of factors, one of which is the floor areas of assets, with which the auditors identified some discrepancies in their work. This issue identified was isolated to

a group of assets, and all of those which had significant values (26 assets), were tested as part of the audit work, identifying the £2.8m understatement which will be corrected going forwards.

6.22. The year has clearly been a challenge for the Council's auditors. Council Officers will continue to work closely with them to ensure that this can be turned around so they can meet the Council's timescale requirements in future years.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. As this report details a financial subject matter, finance comments are made throughout the content of this report.

Legal

8.2. The Statement of Accounts has to be produced in accordance with the Accounts and Audit (England) Regulations 2015 and the Chartered Institute of Public Finance (CIPFA) Code of Practice, industry best practice principles. The Council has failed to comply with the 31 July deadline for complying with the statutory requirements for publication. Accordingly the Council must:

- (a) publish (which must include publication on the Council's website) as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this; and
- (b) comply with the publication requirement as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

Appendix 1 – Audit Completion Report

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.