

APPROVAL OF THE 2018/19 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT FOR THE YEAR ENDED 31 MARCH 2019

Committee name	Audit Committee
Officer reporting	Sian Kunert, Finance
Papers with report	EY Audit Results Report – to follow EY Pension Fund Audit Results Report Statement of Accounts as at 31 March 2019
Ward	All

HEADLINES

The draft Statement of Accounts are attached to this report for approval. A final version of the statement of accounts will be provided at the committee meeting and will be subject to any changes through the remainder of the audit period. The statement of accounts are inclusive of the Pension Fund accounts. The Pension Fund accounts are audited separately due to their specialist nature.

EY, the external auditor, have prepared two reports to summarise their findings on the audit of the 2018/19 Statement of Accounts and the Pension Fund Accounts. The report on the main financial statements will follow, the report on the Pension Fund accounts audit is attached.

EY have indicated they will issue an unqualified opinion on the Pension Fund Accounts, subject to some outstanding areas of work.

RECOMMENDATIONS:

That the Committee approve the audited Statement of Accounts for 2018/19.

SUPPORTING INFORMATION

The arrangements for keeping and publishing the Council's accounts are set out in the Accounts and Audit Regulations 2015. Under these regulations the Corporate Director of Finance is responsible for determining the Council's accounting system, form of accounts and supporting accounting records.

In accordance with the requirements of the Accounts and Audit Regulations the Corporate Director of Finance approved the Statement of Accounts on 30 May 2019, prior to the accounts release to the Council's external auditor, EY.

Once the accounts are audited the regulations require the Audit Committee consider and approve the audited Statement of Accounts by 31 July 2019 and for these accounts to be signed and dated by the Audit Committee and Responsible finance officer.

Scope of external audit

The Council's auditor, EY, is responsible for undertaking an audit of the Statement of Accounts. The outcome of the audit is set out in the audit results report.

The International Standard on Auditing Report 260 (ISA 260) requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

- Financial performance and position
- Accounting policies and financial reporting
- Materiality and identified misstatements
- Accounting and internal control systems
- Value for Money (VFM) conclusion

Annual Governance Statement

The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2015. The Council also has a duty under the Local Government Act 2003 to conduct a continuous assessment and improvement of business functions and demonstrate Economy, Efficiency and Effectiveness.

The Council has developed a system to evaluate the management of risks, internal controls and governance arrangements across all services, which form part of the process to compile this document. This process concludes with a formal statement outlining overall performance and any measures needed to address identified governance weaknesses as part of the Statement of Accounts. The AGS has been signed and agreed by the Leader of the Council and the Chief Executive; approval of the Statement of Accounts includes adoption of the AGS.

Accounts Summary

The Balance Sheet of the Council sets out the assets and liabilities at the end of the financial year and is a guide to the financial health of the Council. There was an overall increase to the wealth of the Council shown through the balance sheet of £276m, this was mainly due to a revaluation rise in property value, which also increased the revaluation reserve within unusable reserves.

Usable reserves fell £9m in year with a reduction in schools balances and the HRA reserves, with a small increase on General Fund balances.

The Comprehensive Income and Expenditure Statement shows a surplus of £25.8m on the provision of services. Much of this surplus resulted from the reversal of previous revelation losses and profit on asset disposals. However most of the surplus is reversed out due to accounting requirements, to represent the statutory cost of the general fund and HRA for Council Tax and rent setting purposes. The ultimate impact to the General Fund was an in-year surplus of £1.3m, whilst the HRA had an in-year deficit of £18.8m.

Post Balance Sheet Events

The accounts have been updated with a post balance sheet event since 31 March 2019.

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members mean they cannot be lower than what they would have received under the previous benefit structure.

In December 2018 the Court of Appeal upheld a ruling (“McCloud/Sargeant”) that similar transitional protections in the Judges’ and Firefighters’ Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. LGPS benefits accrued from 2014 may therefore need to be enhanced so that all members, regardless of age, will benefit from transitional protections. Alternatively, restitution may be achieved in a different way, for example by paying compensation. It is anticipated that many more members would see an enhanced benefit and there will therefore be a retrospective increase to members’ benefits, giving rise to a past service cost for the Fund employers.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on a wide range of factors that can impact. The Government Actuary’s Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund’s actuary has adjusted GAD’s estimate to better reflect the London Borough of Hillingdon Pension Fund’s local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to London Borough of Hillingdon Pool is that total liabilities (i.e. the increase in active members’ liabilities expressed in terms of the employer’s total membership) could be 0.23% higher as at 31 March 2019, an increase of approximately £3.4m.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions. As a result of this has been accounted for as a non adjusting post balance sheet event in the Councils financial statements. The primary financial statements have not been corrected to take account this estimate.

Public Inspection of the Accounts

In line with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015, from 1st June 2019 to 12th July 2019, any person interested was able to inspect the accounts of the council for the year ended 31st March 2019. Inspection includes all related documents (comprising books, deeds, contracts, bills, vouchers and receipts). Documents are often redacted, as there is no right to inspect documentation or records with personal information. During this same period a Hillingdon local government elector, or his/her representative, may question the Auditor about the accounting records, and raise an objection to the council’s accounts.

At the time of reporting the Council had received public inspection requests from two individual’s, one local elector and one Councillor, on 5 specific topics. Officer time in responding to these enquires is estimated to have taken approximately 40 hours.

In addition to the inspection requests EY have received an objection to the accounts. Further

information and an update will be provided at the committee meeting.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis under powers contained in the Local Audit and Accountability Act 2014. In Hillingdon, EY have been appointed by the PSAA to carry out this function.