

APPROVAL OF THE 2019/20 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2020

Committee name	Audit Committee
Officer reporting	James Lake, Chief Accountant
Papers with report	EY London Borough of Hillingdon Audit Results Report EY Pension Fund Audit Results Report Draft Statement of Accounts 31 March 2019 EY Redmond Review Update EY Financial Reporting Council Inspection Results
Ward	All

HEADLINES

The attached two results reports summarise the findings of EY, the External Auditor, on the audit of the 2019/20 Statement of Accounts including the Pension Fund Accounts. The first report summarises the main financial statements and the second the Pension Fund accounts audit.

At the time of writing the reports the auditor expects to issue an unqualified opinion and that the Statement of Accounts give a 'true and fair' view. Additionally, in terms of value for money, the auditor has reported they have no matters arising to include in the auditor's report about arrangements to secure economy, efficiency and effectiveness in the use of Council resources.

The statement of accounts is inclusive of the Pension Fund accounts; the Pension Fund accounts are audited separately due to the specialist nature. The auditor has reported that this part of the Financial Statements is also expected to receive an unqualified opinion and that the Statement of Accounts give a 'true and fair' view.

The report addresses key audit risks that were identified prior to audit and reported to Audit Committee on 3 February 2020 and additional risks as a result of COVID-19 and new regulations which came into force 30 April 2020.

RECOMMENDATIONS:

That the Committee:

- 1. Approve the audited Statement of Accounts for 2019/20.**

SUPPORTING INFORMATION

The arrangements for keeping and publishing the Council's accounts are set out in the Accounts and Audit (England) 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 (England) Regulations 2015 and subsequently, Accounts and Audit (Coronavirus) Amendments Regulations 2020 which extended the requirement for draft accounts to be published by 31 August, the Corporate Director of Finance approved the Statement of Accounts on 7 August 2020 prior to the accounts release to the Council's external auditor, EY.

Once the accounts are audited, the 2020 Coronavirus amended regulations require the Audit Committee consider and approve the audited Statement of Accounts by 30 November 2020 and for these accounts to be signed and dated by the Committee Chairman and Corporate Director of Finance.

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 attached reports.

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:

- Significant qualitative aspects of accounting practices including accounting policies and financial reporting
- Any significant difficulties encountered during the audit
- Any significant matters arising from the audit
- Written representations requested by the auditor
- Expected modifications to the audit report
- Consideration of laws and regulations
- Any other matters significant to overseeing the financial reporting process

At this stage EY have nothing they need to bring to the attention of the Audit Committee which is not included elsewhere in their reporting.

In addition, the Auditor requires a "Management Representation Letter" to be signed by management. The contents of this letter are set out at Appendix D of the EY main audit report and Appendix C of the EY Pension Fund audit report. The letters have to include representations from management on matters material to the statements where sufficient appropriate evidence cannot reasonably be expected to exist.

Comment on the contents of the report

Main Accounting Statements

The report gives a comprehensive account of the work undertaken during the audit with a focus on significant risks, as identified at the planning stage and subsequently due to COVID-19. EY

will discuss the findings of their audit work in detail at Committee and provide an update from the report date.

Two judgmental misstatements are noted regarding the different approaches taken by the professionals employed by the Council and EY. These include the valuation by Wilks Head and Eve of two secondary schools and Hymans Robertson's approach to McCloud and Goodwin legal judgements within the IAS19 pension liability. The Council stands by the approaches and results of its external professionals and as these two issues fall below the materiality threshold no adjustments were made. There are no misstatements greater than the audit threshold or errors in the accounts to report and no recommendations at this stage. Due to COVID-19, EY may present an emphasis of matter in the audit opinion relating to the valuation of property. Although subject to internal review, EY state there is nothing within the going concern disclosure which requires an emphasis of matter disclosure. An emphasis of matter disclosure does not constitute a modification or qualification of the audit report.

Pension Fund Statements

The report gives an account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. EY draw attention to an emphasis of matter regarding valuation uncertainty of pooled fund property investments as a result of COVID-19 and following RICS guidance; this is not a modification or qualification of the audit report. There are no unadjusted audited differences to report.

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 £80m, this was mainly due to a revaluation rise in property value and reduction in the pension fund liability.

Usable reserves fell £36m in year with a reduction in General Fund and HRA reserves along with a drawdown of capital reserves. In 2019/20 Schools reserves are now presented within Earmarked Reserves; overall Earmarked Reserves show a reduction of £6.8m, however of these

there is as small increase in Council Earmarked reserves offset by a £7.6m reduction in Schools' reserves.

The Comprehensive Income and Expenditure Statement shows a deficit of £80.7m on the provision of services. However much of the deficit 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 deficit of £7.4m, whilst the HRA had an in-year deficit of £1.2m.

Going Concern

In the context of the COVID-19 pandemic and resulting impact on local government finances, a greater emphasis has been placed on ensuring that going concern disclosures within the statement of accounts are appropriate and reflect the latest financial position and risk. The disclosure included in the statement of accounts sets out the latest financial position of the Council, including the COVID-19 overspend, cashflow forecasts and borrowing projections. The EY audit results report notes that the Authority has headroom within the General Fund to mitigate the impact of COVID-19 in the short to medium-term and that the Council proactively manages its cashflows. EY therefore do not expect to include an emphasis of matter paragraph in the audit opinion.

Post Balance Sheet Events

There are no post balance sheet events since 31 March 2020 to report.

Additional information

EY have produced two updates which are included for reference. The first relates to the Redmond Review and summarises proposed audit and accounting changes. The second provides an update on the Financial Reporting Council's review of the performance of the seven largest audit firms on Local Authority and NHS audits for the year ended 2019.

FINANCIAL IMPLICATIONS

Proposed scale fees detailed in the original audit plan for the London Borough of Hillingdon audit have increased by 72% from £121.0k to £208.0k. For the London Borough Pension Fund proposed scale fees have increased by 175% from £16.2k to £44.5k. Other fees relating to additional work may follow. The Pension Fund currently shows £17k in other fees.

These additional scale fees are being considered by the PSAA as part of the national consideration of EY's fee proposals. The Corporate Director of Finance will also consider these fees in line with benchmarking information and in consultation with EY.

An allowance for increased fees has been made within the Council's statement of accounts.

Included within the EY reports is further information on the proposed fees for 2019/20.

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. Other legal implications are included in the body of the report.

BACKGROUND PAPERS

Appendices as attached.