

APPROVAL OF THE 2020/21 STATEMENT OF ACCOUNTS AND DRAFT EXTERNAL AUDIT REPORT FOR THE YEAR ENDED 31 MARCH 2021

Committee name	Audit Committee
Officer reporting	James Lake, Head of Finance - Statutory Accounts & Pension Fund
Papers with report	Draft EY London Borough of Hillingdon Audit Results Report Draft EY Pension Fund Audit Results Report Draft Statement of Accounts 31 March 2021
Ward	All

HEADLINES

The attached two results reports summarise the findings of EY, the External Auditor, on the audit of the 2020/21 Statement of Accounts including the Pension Fund Accounts. The first report summarises the Council's main financial statements and the second the Pension Fund accounts.

At the time of writing it is unlikely the audit will be complete at the 29 September 2021 Committee date as there are several outstanding pieces of audit work, one of which is a national issue relating to IAS19 pension fund estimates.

Currently there are no unadjusted differences and once the audit is complete, it is expected EY will be able to issue an unqualified opinion and that the Statement of Accounts give a 'true and fair' view.

The statement of accounts is inclusive of the Pension Fund accounts; the Pension Fund accounts are audited separately due to the specialist nature. Completion of the Pension Fund Accounts is also unlikely.

Again, currently there are no unadjusted differences and once the audit is complete, it is expected EY will be able to issue an unqualified opinion and that the Statement of Accounts give a 'true and fair' view.

EY is aiming to complete the audit before the end of October 2021.

The report also addresses key audit risks that were identified prior to audit and reported to Audit Committee on 20 April 2021.

RECOMMENDATIONS:

That the Committee:

- 1. Note the progress of 2020/21 external annual audit.**
- 2. Subject to no material change in the attached draft accounts, delegate authority for the Audit Committee Chair to approve the audited 2020/21 Annual Statement of Accounts.**

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 the Accounts and Audit (Coronavirus) Amendments Regulations 2021 which extended the requirement for draft accounts to be published by 31 July 2021, the Corporate Director of Finance approved the Statement of Accounts on 30 June 2021 prior to the accounts release to the Council's external auditor, EY.

Once the accounts are audited, the 2021 Coronavirus amended regulations require the Audit Committee consider and approve the audited Statement of Accounts by 30 September 2021 and for these accounts to be signed and dated by the Committee Chairman and Corporate Director of Finance.

If the audit is not complete by the 30 September 2021 the Council is required to instead publish a notice with supported evidence.

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 include, but are not limited to:

- 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

- Going concern, external confirmations, and related parties
- 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. Examples of these letters are set out at Appendix D of both EY audit reports. The letters must 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 the audit work till to be completed.

EY hope to have completed most outstanding items by the Audit Committee date. EY will discuss their findings in detail and provide an update from the report date.

Pension Fund Statements

The report gives an account of the work undertaken during the audit and includes several auditor mandatory reporting requirements.

Again, there are a number of outstanding audit items which EY hope to have completed by the Audit Committee date and an update will be provided.

Pension Liability Valuation

Accounting for the pension scheme involves significant estimation and judgement. Hillingdon engages the scheme actuary, as an expert, to prepare the calculations on their behalf. Audit standard 500 and 540 requires EY to gain assurance on the use of experts and underlying estimates. A national issue has arisen in terms of gaining this assurance which has created a delay in the audit process. Hillingdon now understand this issue has been partly resolved and EY has been provided with the necessary information to begin their initial work in this area. There are however ongoing discussions with the National Audit Office and the audit firms which may require a change in approach, but currently these are unknown and no timings have been forthcoming.

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.

Value for Money

Under the Code of Audit Practice 2020 EY are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money for the relevant period.

EY has not identified any significant risks regarding the Council's 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

In line with guidance, EY plan to issue the VFM commentary by December 2021 as part of issuing the Auditor's Annual Report.

Whole Government Accounts (WGA)

Alongside the audit of the accounts EY is also required to review the Whole Government Accounts submission. To enable the WGA submission HM Treasury (HMT) create a Data Collection Tool (DCT). Currently HMT has advised this tool will not be ready until at least December 2021. Until the WGA return has been completed and reviewed, EY will be unable to finalise the annual audit. However, it should be noted this does not impact the audit of the statement of accounts.

Accounts Summary

The Balance Sheet of the Council sets out the assets and liabilities at the end of the financial year which shows a reduction of £155m. This was mainly attributable to an increase in the pension fund liability only being marginally offset by a revaluation rise in property value.

Usable reserves increased by £34m mainly through an increase in earmarked reserves. The positive impact due to the £15m transfer of the negative DSG element in school's balances was mostly offset by General Fund and Housing Revenue Account in-year deficits and drawdowns from other usable reserves.

The Comprehensive Income and Expenditure Statement shows a deficit of £9.8m on the provision of services. However, £30.3m of this relates to earmarked reserve transfers. Following reversals 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 £5.7m, whilst the HRA had an in-year deficit of £1.9m.

Post Balance Sheet Events

There are no post balance sheet events since 31 March 2021 to report.

FINANCIAL IMPLICATIONS

Proposed scale fees detailed in the original audit plan for the London Borough of Hillingdon include the PSAA agreed scale fee of £121,096 plus an extra scale fee of £82,728 which is currently being discussed with the PSAA. Further additional variation fees of between £9,000 and £18,000 for specialist areas are also listed. The EY report also notes further potential variation costs for additional work and grant certification.

For the London Borough Pension Fund agreed scale fees are £16,170 with an additional scale fee of £28,290.

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.

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

See appendices