

REPORT TO: AUDIT AND GOVERNANCE COMMITTEE
DATE OF MEETING: 24 JULY 2019
REPORT OF: Chief Finance Officer
TITLE: Statement of Accounts 2018-19

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To seek Members' approval of the Council's Statement of Accounts for 2018-19, subject to audit.

2. Recommendations:

It is recommended that the Audit and Governance Committee approve:

- **The Statement of Accounts for 2018-19, subject to audit**
- **The notice to be placed on the Council's website to explain the reasons for the delay in completing the audit**

3. Reasons for the recommendation:

The publication of a Statement of Accounts is a statutory requirement, in accordance with the Local Audit and Accountability Act 2014, supported by the Accounts and Audit Regulations 2015.

In England and Wales, each authority is required to prepare its unaudited Statement of Accounts by 31 May (prior to the period for the exercise of public rights to inspect the accounts) and to approve and publish the audited Statement of Accounts by 31 July.

The Council achieved the 31 May statutory deadline as it published its unaudited Statement of Accounts on the 29 May. However, the audit of the Statement of Accounts will not be completed by 31 July, due to factors beyond the control of the Council. In these circumstances, the Council is required to publish a notice on its website stating that the Council has not been able to publish its audited Statement of Accounts and the reasons why.

4. What are the resource implications including non financial resources

The Statement of Accounts is intended to give a 'true and fair' view of the financial position and transactions of the Council, including group financial statements, as at 31 March 2019.

5. Section 151 Officer Comments:

The fact that the accounts will not be audited by the due date is extremely disappointing. However it is perhaps an inevitable conclusion given the aggressive procurement exercise undertaken for national audit. Exeter is not the only Council to be affected, nor are Grant Thornton the only firm who will be unable to deliver their commitments this year. The finance team will endeavour to work with Grant Thornton to complete the audit in time for the September although the team have planned leave for much of August so as to fit in with the original audit timetable. It is important to note that the Deputy Chief Finance Officer and her team delivered the draft accounts to the Auditor in advance of the deadline.

Members will be concerned about how this situation can be avoided in the future as the pressures that have caused this delay are unlikely to be any less challenging in the future.

6. What are the legal aspects?

The Statement of Accounts has been prepared in accordance with the statutory framework established for England by the Accounts and Audit (England) Regulations 2015.

The audit of the accounts will be undertaken in accordance with the statutory framework established by section 20 of the Audit and Accountability Act 2014, by the Council's external auditors, Grant Thornton.

7. Monitoring Officer Comments:

The Monitoring Officer has no comments to make.

8. Report Details:

8.1 EXTERNAL AUDIT OF THE 2018-19 STATEMENT OF ACCOUNTS

8.1.1 Appointment of Auditor

Public Sector Audit Appointments Ltd (PSAA) is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. Exeter City Council opted into this arrangement.

On 14 December 2017, the PSAA board approved the appointment of Grant Thornton (UK) LLP to audit the accounts of Exeter City Council for a period of five years, covering the accounts from 1 April 2018 to 31 March 2023. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015.

8.1.2 Audit Not Concluded Before 31 July

Due to a peak period of work during June and July, when all local government accounts are audited, our auditor, Grant Thornton, was unable to conclude the audit.

Grant Thornton has confirmed that it takes full responsibility for this, and is aiming to conclude its work by 18 September, using specialists in local government audit.

Grant Thornton Associate Director, Geraldine Daly, will attend Audit and Governance Committee to explain further.

8.1.3 Publish Notice on the Website

In accordance with Regulation 10 (2) of the Accounts and Audit Regulations 2015, where an audit of accounts has not been concluded before 31 July, an authority must publish a notice (which must include publication on the authority's website) stating that it has not been able to publish the audited statement of accounts and its reasons for this.

Appendix 1 sets out the proposed notice.

8.2 STATEMENT OF ACCOUNTS 2018-19

The purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances.

Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts.

8.2.1 Presentation of the Statement of Accounts

The Code of Practice on Local Authority Accounting (the Code) provides guidance on the format and content of the Statement of Accounts and means that they have to conform to a national standard.

8.2.2 Main Changes to the Accounts

The key accounting changes affecting the Statement of Accounts for 2018-19 are:

- **Group Accounts**

During 2018/19 the Council established Exeter City Group Ltd (holding company) and Exeter City Living Ltd (housing development company), which are subsidiary companies due to the Council's 100% shareholding in the group. The main purposes of the group are to build more and better homes to tackle housing need in Exeter, help reduce the substantial pressures on the Council's housing waiting list and to improve the lives of those residents currently living in poor quality homes.

The Code sets out a requirement to prepare Group Accounts where the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality. The Council's interest in Exeter City Group Ltd has been judged to be material (i.e. the inclusion of Group Accounts makes a material difference to the usefulness of the Statement of Accounts for readers). Group accounts have therefore been prepared for 2018/19.

- **New Accounting Standard – IFRS 9 Financial Instruments**

The 2018-19 Code of Practice on Local Authority Accounting adopted the new accounting standard in respect of financial instruments. The definition of a

financial instrument is broad and covers the instruments used in the day-to-day treasury management activity of the authority, including the borrowing and lending of money and the making of investments. It also extends to trade receivables and payables.

The accounting approach for financial liabilities is largely unchanged, but there is a new approach to the classification of financial assets and a new model for calculating bad debt provisions, which are now classified as loss allowances.

Reclassification of Financial Assets

For Exeter, the key impact of the reclassification of financial assets is that assets previously held as Available for Sale Assets are now classified as Fair Value Through Profit and Loss (FVTPL), such as the Council's investment in pooled investment funds (money market funds and the CCLA Property Fund). Under FVTPL any movements in fair value are debited or credited against the General Fund Balance.

Fortunately, the Government recognised that this could have a negative impact on the General Fund Balance and introduced a statutory override requiring local authorities to reverse out any fair value movements. The statutory override will apply for a period of 5 years from 1 April 2018.

Loss Allowances

The IFRS 9 approach is that very little investments or debtor balances are 100% secure and it requires a more prudent approach to recognising credit risk. Loss allowances are now forward-looking, with the provision for losses based upon forecasts of how much of amounts owed will be collected, rather than based on historical payment default data.

- **Retrospective Restatement**

During the process of closing the 2018-19 accounts it was identified that funding provided to Wessex Resolutions CIC, between 2009/10 and 2012/13, to help support a home improvement loans programme, was incorrectly held in the Council's Balance Sheet as debtors (totalling £915k). However, due to the status of the company as a community interest company, the balances should have been treated as revenue expenditure funded from capital under statute (REFCUS), in accordance with proper accounting practice.

In order to correct retrospectively, the prior period figures have been corrected by amending the opening balances and comparative amounts for 2017-18. A Prior Period Restatement note is included in the Statement of Accounts (Note 7), which sets out the impact on the accounts.

9. How does the decision contribute to the Council's Corporate Plan?

The Statement of Accounts set out the financial position at the end of the 2018-19 and the transactions of the Council during 2018-19, both of which help underpin delivery of the Corporate Plan.

10. What risks are there and how can they be reduced?

The risks relate to overspending the Council budget and are mitigated by regular reporting to the Strategic Management Board and Members. There is also a risk of failing to implement key accounting changes in accordance with approved accounting standards, but this is mitigated by the external audit of the Statement of Accounts.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

12. Are there any other options?

No

Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

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