

REPORT TITLE: ANNUAL FINANCIAL REPORT 2018/19

25 JULY 2019

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Risk

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WARD(S): ALL

## PURPOSE

This report presents the audited Annual Financial Report 2018/19 which includes:

- a narrative statement (for noting);
- the audited Statement of Accounts for the year ended 31 March 2019 (for approval); and
- The Annual Governance Statement (being considered elsewhere on this agenda in report AG011).

Legislation requires the Statement of Accounts to be approved by Members by the 31st July 2019. Audit Committee has delegated powers to review and approve the annual Statement of Accounts. The Committee has specific responsibility to consider the appropriateness and application of accounting policies and whether there are any concerns arising from the financial statements' audit.

Elsewhere on the agenda the External Auditors have presented their Annual Results Report which includes a proposed unqualified opinion (AG010). Due to the new condensed timetable for auditing the financial statements, the audit is still underway at the time of writing this report. The version of the accounts appended to this report may be subject to change if the audit identifies any material misstatements prior to the committee meeting.

It is important that Members have considered the key issues contained in the Accounts. Members have had the opportunity to raise any queries regarding the Financial Statements in the period since the pre-audit accounts were issued in May and are once again requested to raise any matters of detail with the Finance Manager (Financial Reporting) in advance of the meeting.

RECOMMENDATIONS:

1. That Audit Committee approves the Statement of Accounts 2018/19 as set out in Appendix 1.
2. That the Chairman of this meeting signs the Statement of Responsibilities on page 22 of Appendix 1 to certify the accounts and authorise their issue.

## IMPLICATIONS:

### 1 COUNCIL STRATEGY OUTCOME

- 1.1 The preparation of the Annual Financial Report is fundamental to the requirement for accountability for public finances. Ensuring that there is strong financial reporting and stewardship of public funds underpins the Council's ability to delivery the outcomes of the Council Strategy.

### 2 FINANCIAL IMPLICATIONS

- 2.1 None

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Regulation of the Accounts and Audit Regulations require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.
- 3.2 Local authorities in the UK are required to keep their accounts in accordance with 'proper (accounting) practices', being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The Code specifies the principles and practices of accounting, required to prepare financial statements that annually give a true and fair view of the financial position and transactions of a local authority.
- 3.3 The necessity to confirm with these Regulations and the Code is recognised accurately in this report.
- 3.4 There are no direct legal implications. Where further work is required to respond to the issues identified, any additional legal resources required to implement identified improvements will be raised separately or through the budget process.

### 4 WORKFORCE IMPLICATIONS

- 4.1 None

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

### 6 CONSULTATION AND COMMUNICATION

- 6.1 None

### 7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None

8 EQUALITY IMPACT ASSESSEMENT

8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None

10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Legal</i> Failure to meet the statutory deadline for publication of the unaudited accounts.	A comprehensive set of working papers was produced in advance of the external audit and an effective plan for the efficient transfer of information and update meetings was agreed with the audit team.	None
<i>Reputation</i> The accounts are qualified by external audit as being materially misstated.	The accounts are prepared in accordance with the CIPFA Code of Practice and are both planned and reviewed using the CIPFA Disclosure Checklist. Early communication / agreement of accounting treatment with external auditors.	None

11 SUPPORTING INFORMATION:

11.1 The financial statements have been subject to external audit by Ernst and Young LLP (EY). In accordance with the statutory requirements, it is planned that the audited Statement of Accounts will be published, together with the auditor's opinion, Narrative Statement and Annual Governance Statement, by the 31st July 2019.

11.2 EY are still conducting the audit at the time of writing this report. Should the audit identify any material errors or misstatements, the final accounts brought to Committee for approval may differ from those appended to this report.

11.3 Since the preparation of the pre-audit Statement of Accounts and its publication in May, a number of adjustments have been agreed with the auditors. In addition to some rounding adjustments and formatting corrections the following has been amended:

- a) Pensions accounting for the McCloud Judgement  
A contingent liability was included in the pre-audit Statement of Accounts to detail the impact on public sector pension schemes of the ruling on transitional protection arrangements. On 27th June the Supreme Court refused the Government's application to appeal the decision in the discrimination case. As a result of this decision, the impact on the Local Government Pension Scheme became more certain so the Council requested that the Hampshire Pension Fund actuary provide an estimate of the increase in the Council's liability.

The Actuary used assumptions on a 'worst case' scenario to calculate the potential impact as 3.2% of the Council's active liabilities as at 31 March 2019. This equates to an increase of £1.9m. As this value exceeds the auditors' performance materiality threshold it was agreed that the accounts will be adjusted. The impact of this can be seen as:

- an increase in *Organisational Management* costs in the Comprehensive Income and Expenditure Account;
- an increase in the *HRA share of Corporate and Democratic Core* costs in the HRA Income and Expenditure statement;
- a revised *Adjustments between Accounting Basis and Funding Basis under Regulations* in the Movement in Reserves Statement (and note 6);
- increased *Pension Scheme Liability* and reduced *Unusable Reserves* on the Balance Sheet
- changes to Pension Fund adjustments in the Cash Flow Statement and Expenditure and Funding Analysis; and
- updated disclosures in note 22 (defined benefit pension schemes)

#### 11.4 Unadjusted audit differences

Following the publication of the pre-audit accounts two errors in the valuation of the Property, Plant & Equipment (PPE) assets were identified by the Finance team. These errors were brought to the attention of the auditors but as they were not material they have not been adjusted in the audited accounts – further detail on the issues is as follows:

- a) Under-valuation of dwelling assets by £540,000 (in relation to 6 new properties, completed during 2018/19). The total value of PPE assets is £496m so this understatement of dwellings represents 0.1% of the balance sheet value.
- b) Over-valuation of open space land at Chilcomb Sports Ground. This asset was donated to the Council during 2018/19 and the valuation at the year end was overstated by £410,000. This represents less than 0.1% of the total value of PPE assets.

- c) The net effect on the Council's balance sheet of these two errors is an understatement of £130,000.

#### 11.5 Approval of the Statement of Accounts

The Statement of Accounts has been prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations.

The Council's Statement of Accounts will be signed, prior to the Committee meeting, by the *Corporate Director: Resources*, in his capacity as Section 151 Officer, to certify that they give a true and fair view of the financial position of the Council as at 31 March 2019.

In addition, the Chairman of the Audit Committee is required to sign the Statement of Accounts to certify that they have been approved by a resolution of the Audit Committee and that they are authorised for issue.

#### 12 OTHER OPTIONS CONSIDERED AND REJECTED

##### 12.1 None

#### BACKGROUND DOCUMENTS:-

##### Previous Committee Reports:-

[AUD229](#) – Planning for and Audit of the 2018/19 Accounts (7 March 2019)

##### Other Background Documents:-

None

#### APPENDICES:

Appendix 1 – Annual Financial Report for the Year Ended 31 March 2019