Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Annual Statement of Accounts 2018/19 & External Audit report to those charged with Governance
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Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[X]
Connections making Havering	[]

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 31st July 2019. However, the audit was not concluded on time due to delay with the completion of the audit work. The Council therefore published a notice on 31st July 2019 to confirm the accounts status. At this stage our auditors, Ernst and Young, expect to issue an unqualified opinion on the Statement of Accounts shortly.

RECOMMENDATIONS

The Committee is asked to:

a) Consider the contents of this report and the Statement of Accounts (Appendix A) , alongside the "External Audit Report to those charged with Governance" (Appendix B) and any verbal updates by the External Auditor under that agenda item, following their examination of the Council's accounts.

b) Note that the audited accounts must be published at the earliest opportunity following the audit.

c) Note the amendments to the accounts arising from the audit of the accounts set out at section 1 of the Report.

d) Approve the Statement of Accounts for the financial year ended 31st March 2019, having regard for the auditor's Report.

e) Agree that the Chair of the Committee, in consultation with the Chief Operating Officer (Statutory Chief Finance Officer) be delegated to approve any subsequent amendments to the Statement of Accounts that may be necessary as a result of audit completion procedures.

f) To approve the Letter of Representation (Appendix C).

REPORT DETAIL

1. Statement of Accounts 2018/19

The Accounts and Audit Regulations 2015 require that the authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively (previously this was 30th June and 30th September). Although, this is the second year of the new statutory deadline, this change has had a significant impact on both Havering and our auditors to ensure the accounts are completed within the required timescales.

The Council produced the accounts by 31st May, and our auditors, Ernst and Young, commenced their audit work straightaway. However, their work continued beyond 31st July due to delay with the completion of the audit work. They have now almost completed this work and expect to issue an unqualified opinion. A formal report on their findings will be circulated prior to Audit Committee.

The final draft Statement of Accounts and Annual Audit report are attached to this report to the Audit Committee, which reflect a number of changes to the draft accounts published in June. These changes have been agreed with the auditors as a result of their work. The changes relate to four key areas:

Property, Plant & Equipment

Some of the changes are due to errors in valuation of the assets held by the Council, but a number of key changes are due to reclassification of the assets held. It is important to note that these changes had no impact on the Council's usable reserves position. Below is a summary of the changes:

- Nason Waters - the Council's valuation did not include the valuation of the new extension. Revised valuation showed an increase in the value of this asset by £1,050k, with the effect processed through the Revaluation Reserve.

- Old Rainham Library – The Council's carrying value for this site was substantially different from indicative sales value for this site. This has resulted in a reduction in the asset value by £3,826k, with a corresponding reduction in the revaluation reserve.

- Moor Lane – the Council's valuation was based on incorrect floor plan data. Revised valuation showed an increase in the value of this asset by £263k, with the effect processed through the Comprehensive Income and Expenditure Statement.

- Queens Theatre – initially the Council valued it on the Existing Use Value (EUV) basis, using its 25 year lease term with the Trust, at £297k. This differed significantly from the previous Depreciated Replacement Cost (DRC) basis of £9,128k prior to the lease being agreed with the Theatre. However, EY have concluded that the asset should continue to be valued at a DRC basis. The Council has agreed to revert back to valuing the asset on a DRC basis, increasing the asset value by £8,830k with the corresponding increase partly through revaluation reserve and Comprehensive Income and Expenditure Statement.

- Mead Junior School expansion - capital expenditure of £1,373k on expansions was incorrectly assigned to Hall Mead (an Academy school) rather than Mead Junior (a Community school). As a result REFCUS expenditure was inflated and additions to PPE Other Land & Buildings was understated. This change is contained within the Property Plant and Equipment note 14 on page 61 of the accounts.
- Whybridge Infant School – the Council had derecognised the total school site occupied by Whybridge Primary School in 2017/18. However, the Infant site had not transferred, and therefore the Council has adjusted its carrying value to reflect control of this portion of the building. This has been determined to be £2,951k as at the balance sheet date. This change is contained between the Comprehensive Income and Expenditure Statement, Revaluation Reserve and the Capital Adjustment Account.

- 12 Estates programme decant costs – the Council has treated costs incurred as part of decanting, within the parent asset which is held under Council Dwellings. The Council has agreed to reclassify these costs as

Assets Under Construction, totalling £5,500k, comprising spend of £2,900k incurred in 2018/19 and £2,600k in 2017/18. There is no change on the Council's usable reserve, or indeed the combined carrying value of this suite of assets.

- Napier and New Plymouth House – the Council has earmarked the two tower blocks on this site for demolition and classified them as Asset Under Constructions (AUC) at cost value. However, EY have concluded that the asset should be impaired to reflect its limited use. Therefore, the Council has agreed to impair the value of the buildings by £3,441k to reflect this intention.

- Sunrise Lodge, Serena Court and Solar Court – as above the Council has earmarked these sites for demolition, however, as the assets were not included in the operational housing stock list they were omitted from the council dwellings stock list by error. The Council has agreed to recognise the land value of £2,800k, resulting in an increase in the value of this asset with a corresponding increase in the Revaluation Reserve.

- Briar Road – The Council incorrectly treated expenditure on this block of assets as operational, whilst they had not been so as at the balance sheet date. Therefore, the Council has agreed to reclassify this asset (£7,404k) from Council Dwellings to Assets under Construction. This change is contained within the Property Plant and Equipment note 14 on page 61 of the accounts.

Pension Fund Liability

- A technical accounting adjustment (IAS19 accounting) due to actuarial revaluation of pension liability as a result of McCloud judgement, which increased the pension liability valuation by £8,207k. This had a consequential impact and changes across the account, but no impact on the Council's usable reserve.

Council Tax bad debt provision

- The Council identified this human error, where the increase in bad debt provision of £465k was treated as a decrease, resulting in an understatement of the provision charge by £930k. This is all contained within the Collection Fund account and the Council's notional share of £758k is processed through the Collection Fund adjustment account, with no impact on the Council's usable reserve.

Presentational

- A presentational adjustment within the Financial Instrument disclosure (note 18) to include accrued interest within short term investment table.

- Also a number of other small presentational adjustments have been made across the account.

The closing team have taken full consideration of all the above changes, and made arrangements to ensure every error is reviewed in detail and steps are in place to improve the process to reduce such errors in future. Additionally, for areas that are subject to different accounting treatments, the Council will liaise with auditors at the earliest opportunity to ensure we have a clear early external audit direction.

Following approval of the recommendations by this Committee, the accounts and Letters of Representation must be signed by the Chair of the Committee and the Chief Financial Officer.

2. Accounting Policies

The Audit Committee meeting of 30th January 2019 noted the accounting policies to be applied to the financial year 2018/19, and these are reflected in the draft Statement of Accounts. The accounting arrangement around the group has been applied to consolidate Mercury Land Holdings within Havering's accounts, as in 2017/18. The joint venture arrangements has been disclosed within the accounts, however, the balances have been negligible to warrant full incorporation.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

Legal implications and risks:

The Audit Committee is the decision making body in relation to the approval of the Annual Statement of Accounts which is one of the miscellaneous functions not to be the responsibility of the Executive.

There are no apparent legal implications in adopting the recommendations set out in this Report.

Human Resources implications and risks:
N/A

Equalities implications and risks:
N/A