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| Report to: | AUDIT PANEL |
| Date: | 29 July 2019 |
| Executive Member / Reporting Officer: | Councillor Ryan, Executive Member for Finance and Economic Growth Kathy Roe – Director of Finance |
| Subject: | EXTERNAL AUDIT COMPLETION REPORT |
| Report Summary: | This report highlights the key matters arising from Mazars' external audit of the 2018/19 financial statements for both Tameside MBC (TMBC) and the Greater Manchester Pension Fund (GMPF). This report also incorporates the annual Value for Money conclusion. |
| Recommendations: | It is recommended that Panel: <ol style="list-style-type: none"> 1. Considers the matters raised in the reports; 2. Notes that both the proposed adjustments and unadjusted items in the TMBC accounts (Section 2 of this report) relate to accounting adjustments which do not have any impact on the Council's General Fund or Usable reserves; 3. Agrees to the adjustments and presentational changes to the accounts, as detailed in in the Audit Completion Reports (Appendix 1 – TMBC, Appendix 2 – GMPF); 4. Agrees that the unadjusted misstatements set out in the TMBC Audit Completion report (Appendix 1) are not material to the financial statements and do not require amendment; 5. Notes the Unqualified Value for Money Conclusion included in the Tameside MBC Audit Completion report (Appendix 1); and 6. Confirm that the Council has complied with all matters set out in the Letters of Representation and ensure that a signed copy is provided to the External Auditor. |
| Corporate Plan: | The Corporate Plan determines priorities for spending which is summarised in the 2018/19 accounts. |
| Policy Implications: | There are no direct policy implications flowing from the Statement of Accounts. |
| Financial Implications: (Authorised by the statutory Section 151 Officer & Chief Finance Officer) | The Statement of Accounts 2018/19 provides full details of the Council's financial position at 31 March 2019 and its income and expenditure for the year ended 31 March 2019. The accounts are prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting which is based on International Financial Reporting Standards. The Council was required to prepare draft financial statements by 31 May 2019. These draft financial statements have been subject to external audit and must be approved by the Audit Panel by 31 July 2019. |
| Legal Implications: (Authorised by the Borough | Members need to satisfy themselves that the Council has complied with all matters set out in the letters of representation. |

Solicitor)

Risk Management:

The external audit provides verification of the Council's financial statements.

By producing the annual Statement of Accounts, the Council aims to give all interested parties confidence that the public money that has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

Access to Information:

The report is to be considered in public.

Background Information:

APPENDICES

- 1) Tameside Council Audit Completion Report
- 2) Greater Manchester Pension Fund Audit Completion Report
- 3) Tameside Council Letter of Representation
- 4) Greater Manchester Pension Fund Letter of Representation

The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner



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1. BACKGROUND

- 1.1 The Audit Completion Reports (ISA260) for Tameside MBC and the Greater Manchester Pension Fund, as attached at **Appendices 1 and 2**, present the findings and observations arising from the external audit of the Council and Pension Fund financial statements, and the Value for Money conclusion. The Audit Completion Reports are prepared by the external auditors, Mazars.
- 1.2 External audit are required to report on:
- whether the Council's financial statements give a true and fair view of the Council's financial position and the expenditure and income for the year;
 - whether the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year;
 - whether the financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting, and the Local Audit and Accountability Act 2014; and
 - to provide a conclusion in respect of the Council's arrangements for taking properly informed decisions, and to deploy resources to achieve planned and sustainable outcomes for tax payers and local people (the 'Value for Money' conclusion).
- 1.3 External audit also report on whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or knowledge obtained in the audit or otherwise appears to be materially misstated.
- 1.4 Many of the terms used in the Audit Findings Report are defined and have precise meanings. External audit apply the concept of materiality to determine the significance of any errors or amendments to the draft financial statements. Items are considered to be material if they could affect how a reader of the accounts might interpret or use the information presented in the accounts.
- 1.5 Materiality is specific to each Council, but any recommended changes must be considered for their individual and overall impact on the accuracy of the accounts as well as for the specific value of the change. For Tameside MBC, amounts of £0.328m or less are regarded as 'trivial'. Amounts, which are above this level but (in total) less than about £10.917 million are described as 'non-trivial'. Cumulative amounts above £10.917 million are regarded as material, although this may vary for different statements. For the Pension Fund, which has a fund value of more than £23.843 billion, amounts of £7 million or less are regarded as 'trivial'. Amounts, which are above this level but (in total) less than about £225 million are described as 'non-trivial'. Cumulative amounts above £225 million are regarded as material, although this may vary for different statements.

2. AUDIT FINDINGS

- 2.1 The audit of the Council's accounts is nearing completion and an update will be provided to the Audit Panel at the meeting on 29 July 2019. Mazars anticipate issuing an unqualified audit opinion before the end of July 2019, meeting the statutory deadline for the completion of the audit.
- 2.2 There are three non-trivial amendments to the Council's financial statements as set out in the Audit Completion Report, two of which are prior period adjustments. In addition the Audit completion report includes three non-trivial 'unadjusted misstatements'. These items are not material and have not been amended in the financial statements for the reasons set out below. A number of presentational amendments and disclosure adjustments have been made to improve the overall form and content of the financial statements.

- 2.3 None of the amendments or unadjusted items have an impact on the Council's General Fund or Usable Reserves.

TMBC Prior Period Adjustment – Heritage Assets

- 2.4 The Council holds a collection of Heritage Assets (Art Collections, Militaria, Civic Regalia, Statues and Monuments) which have been secured over many years from a variety of sources, being mainly bequeaths, donations and long term loans. Many of the assets acquired from these sources have restrictions attached which govern how the assets may be managed in the future.
- 2.5 When Heritage Assets were initially recognised on the balance sheet in 2011/12, the restrictions on the use of these assets were interpreted as conditions which resulted in the creation of a donated assets liability. The Code provides guidance on the interpretation of restrictions and conditions, and further review has determined that the restrictions on these assets should not have been treated as 'conditions' and the donated assets liability should not have been created. A Prior Period Adjustment has been reflected in the balance sheet at 1 April 2017 to correct this error. The amendment removes the donated assets liability of £10.658m and replaces the credit entry with an equal credit to the Capital Adjustment Account in line with the required accounting for Heritage Assets recognition where only restrictions are in place.
- 2.6 A further Prior Period Adjustment has also been reflected in the balance sheet at 1 April 2017 to correct the valuation of Heritage Assets. With the exception of Statues and other monuments (held at cost), Heritage Assets are reflected in the balance on the basis of insurance valuations which are completed as a minimum every five years. The most recent valuation took place in 2015 but this valuation had not been reflected in the statement of accounts in 2015/16. The prior period adjustment corrects the valuation of Heritage Assets by increasing the value held on the balance sheet by £4.549m, with an equal entry in the Revaluation Reserve (part of unusable reserves).

TMBC Prior Period Adjustment – Assets under Construction

- 2.7 A review of balances held as Assets under Construction has identified a number of balances which should have been written off in 2014/15 or 2015/16. Most of these balances related to work on schools which have subsequently converted to Academy Status and the assets have been derecognised from the balance sheet.
- 2.8 The balance sheet at 1 April 2017 has been adjusted to correct the Assets Under Construction balances to include only balances relating to Council Assets still under construction. The adjustment reduces the balance of Assets under Construction on the balance sheet by £5.903m with a corresponding entry in the Capital Adjustment Account.

2.9 TMBC Valuation of Investment Properties 2018/19

- 2.10 An adjustment has been made to the value of Investment Properties at 31 March 2019 to reflect a movement in the valuation of Ashton Market Hall which was omitted from the draft financial statements due to an error in the Asset Register. The adjustment reduces the value of Investment Properties by £2.501m with a corresponding adjustment in the Capital Adjustment Account.

TMBC Unadjusted Misstatements

- 2.11 The Audit Completion Report for TMBC includes three 'unadjusted misstatements'. These items have not been amended in the financial statements due to their nature or value, and

none of these items has an impact on the Council's General Fund or Usable Reserves. The first item relates to the estimate of the Pensions Liability which is determined by the expert pensions actuary. The actuary did not reflect the potential impact of the Guaranteed Minimum Pension and McCloud legal cases in his estimate of the Pension liability at 31 March 2019 due to the significant level of uncertainty surrounding the impact on future liabilities. The Pension Liability in the TMBC accounts is £345.145m and the estimated impact of the McCloud case is £6.1m. Both these figures are estimates which are highly sensitive to changes in the assumptions behind the estimate. No amendment has therefore been made to the accounts for this item due the amount involved being an estimate and not material.

- 2.12 The other unadjusted misstatements relate to the valuation and classification of Property, Plant and Equipment (PPE). There is an estimated under-statement of the value of PPE of £0.473m due to discrepancies in the information provided to the external valuer in relation to one school site. No amendment has been made for this, due to the understatement being an estimate and the amount not being material. The final item relates to the classification of one item with a value of £0.650m which has been included as Land and Buildings when it should be included in Investment Properties. This item has not been amended because the value on the balance sheet is correct and the error relates to classification only.

GMPF

- 2.13 The audit of the Greater Manchester Pension Fund accounts is substantially complete. Mazars anticipate issuing an unqualified audit opinion before the end of July 2019, meeting the statutory deadline for conclusion of the audit. There is one non-trivial unadjusted misstatement which has not been amended as the impact is not material. There are no amendments to the financial statements. A number of other presentational amendments have been agreed, which improve the overall quality and presentation of the financial statements.

3. LETTER OF REPRESENTATION

- 3.1 **Appendix 3** includes the Letter of Representation for 2018/19 for Tameside and **Appendix 4** for the Pension Fund. The Panel are asked to confirm that the Council has complied with all matters set out in the Letter of Representation and ensure that a signed version is forwarded to the External Auditor. The Letters are signed by the Chair of Audit Panel and the Director of Finance.

4. VALUE FOR MONEY

- 4.1 Mazars are also required to provide a value for money conclusion. The draft conclusion set out in the Audit Completion Report (**Appendix 1**) follows a review of the arrangements put in place by the Council. External Audit are required to evaluate whether:

'In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for tax payers and local people.'

- 4.2 External Audit has focused their work on the Council's response to the OFSTED inspection of Children's Services in December 2016. The Audit Completion Report summarises the work undertaken and the conclusions reached. External Audit plan to issue an *unqualified* Value for Money Conclusion stating that the Council had proper arrangements in place to secure value for money. This is a change from the 2017/18 value for money conclusion which was qualified due to the Council's Children's Services function being judged by OFSTED as being inadequate. The subsequent assessment of Children's Services being

judged Requires Improvement by OFSTED and the recognition that the service has improved significantly has contributed significantly to the 2018/19 *unqualified* value for money conclusion.

5. RECOMMENDATIONS

5.1 As set out at the front of the report.