

**Open Report on behalf of Andrew Crookham, Executive Director -  
Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>22 July 2019</b>
Subject:	<b>Statement of Accounts for Lincolnshire County Council &amp; Lincolnshire Pension Fund for the year ending 31 March 2019</b>

**Summary:**

This report presents the final Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year 2018/19.

**Actions Required:**

The Executive Director for Resources recommends that the Audit Committee:

1. Considers the Audit Completion reports (**Appendix A**) and verbal updates of the External Auditor regarding their audit work on the draft Statement of Accounts;
2. Approves the Letters of Representation (**Appendix B** and **B1**) on behalf of the Council to enable the Audit Opinion to be issued following the report of the External Auditor; and
3. Approves the Statement of Accounts for 2018/19 (**Appendix C**) taking into consideration that further changes may still take place that will be agreed between the External Auditor and Senior Officers to enable publication by the statutory deadline of 31 July 2019.

## **1. Background**

1.1 The Audit Committee was presented with the draft Statements of Accounts for 2018/19 for scrutiny and comment at its meeting on 17 June 2019. Since then the Council's external auditors, Mazars, have largely completed their audit work on the draft Statements and will present their Audit Completion reports and provide a verbal update to this Committee at its meeting on 22 July 2019.

### **Update of the External Auditor**

1.2 The External Auditor is required to report to the Audit Committee, its role as "those charged with governance" on the key issues identified during their audit of

the Council's financial statements for the year ending 31 March 2019, and their assessment of our arrangements to secure value for money in the use of resources, see **Appendix A**. In summary, the External Auditor has confirmed that the audits of the County Council and the Pension Fund are substantially complete although the work to date and any remaining audit procedures are subject to final review. The External Auditor has not at this stage identified any errors in the draft financial statements for the County Council or the Pension Fund which they are required to report to the Audit Committee. The work in progress largely relates to the significant audit risk areas set out in the 2018/19 Audit Strategy Memoranda reported to the Audit Committee at its March 2019 meeting, and the normal completion audit procedures. The External Auditor has also confirmed that they expect, based on the work completed to date, to be able to give an unqualified Value for Money Conclusion. As in 2017/18 the work required to issue the Whole of Government Accounts Auditor's Assurance Report is not expected to be completed by 31 July 2019, with the national deadline now confirmed as 13 September 2019. The Audit Certificate will be issued when that reporting requirement has been met. The External Auditor's reports and verbal updates will provide the Audit Committee with more information on their key findings and proposed audit opinions.

### **Letters of Representation**

1.3 **Appendix B** and **B1** sets out the draft Letters of Representation, one for the County Council and another for the Pension Fund. The Audit Committee will be updated on any changes to the final Letters of Representation at its meeting. The Letters of Representation must be approved by the Audit Committee, on behalf of the Council and the Pension Fund, signed by the Chair of the Audit Committee and the Executive Director for Resources before the audit opinion can be given. The External Auditor will provide two audit opinions: one for the Lincolnshire County Council Financial Statements and another for the Pension Fund Financial Statements.

### **Statement of Accounts**

1.4 The Council is required to make arrangements to prepare Statements of Accounts which give a 'true and fair' view of the financial position for the County Council and for the Pension Fund as at 31 March 2019 as well as of transactions in the 2018/19 financial year.

1.5 The accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The format of the statements and the detailed disclosure notes are largely prescribed in the Code of Practice.

1.6 Councillors have little discretion to influence the detail and content of the statements however Councillors do have a responsibility for corporate governance, including robust scrutiny of the Council's accounts and financial position. For this reason, the Audit Committee was presented with the draft Statements of Accounts for 2018/19 at its meeting on 17 June 2019. At this meeting, Members scrutinised and made comment on the draft accounts.

## Lincolnshire County Council

1.7 A number of amendments have been made to the Statement of Accounts 2018/19 since they were presented to this Committee on 17 June 2019 and these changes are detailed in **Appendix D**. They have arisen either in response to matters raised by the External Auditor, or because Officers themselves identified an issue requiring alteration during the course of the audit.

1.8 A significant accounting issue arose during the course of the audit, which has affected a large number of councils nationally. It related to the accounting treatment of the impact of two legal cases on the Council's main defined benefit pension schemes (Local Government Pension Scheme (LGPS) and Fire Pension Schemes). The legal cases (McCloud and Sargeant) concerned pension scheme reforms and the related transitional pension scheme closure arrangements which the Court of Appeal had ruled were discriminatory in December 2018. The impact of this ruling was uncertain in terms of its financial impact and timing and, at the time the accounts were prepared, it was expected that the government would appeal against the ruling thereby increasing the uncertainty around this issue. Consequently in the draft Statement of Accounts for 2018/19 the judgement was made that this should be disclosed in a note to the accounts as a contingent liability i.e. a potential liability of uncertain financial impact and uncertain timing. At the end of June, the Supreme Court refused the government's application for permission to appeal the Court of Appeal ruling and the case will now be referred back to an employment tribunal for remedy. This has reduced some of the uncertainty around the issue, although even before the Supreme Court hearing it was clear that differing accounting treatments had been adopted by councils and audit firms were looking to achieve consistency.

1.9 Following discussions with Mazars, revised pension scheme valuations were commissioned for the LGPS and Fire schemes, to take account of the McCloud and Sargeant cases, as well as the impact of a further issue relating to guaranteed minimum pensions. These new valuations showed that the impacts were material in the context of the Council's accounts and further changes are currently being made to the accounts to reflect these impacts. It should be noted that the resulting increased pension liability is long term in nature and does not represent any significant short term call on the Council's financial resources.

1.10 The Audit Committee is now asked to approve the Statement of Accounts 2018/19 as amended and detailed in **Appendix C**, with the Committee Chair consulted on any further changes resulting from the matters set out at paragraphs 1.8 and 1.9 or from the remaining audit work required to enable publication by 31 July 2019. The final audited version will be presented to this Committee at its September 2019 meeting.

## Lincolnshire Pension Fund

1.11 The development of the McCloud Judgement has also had an impact on the Pension Fund Accounts. The impact of this, plus the governments Guaranteed Minimum Pension (GMP) initiative, have now been included within the fund IAS26

'Accounting and Report by Retirement Benefit Plans' disclosure which can be found at Note 18, page 164, to the Pension Fund Accounts.

## 2. Conclusion

2.1 The Audit Committee will consider the two Audit Completion reports presented by the Council's external auditor, together with their verbal update;

2.2 Following consideration of the External Auditor's feedback, the Audit Committee is asked to approve the draft Letter of Representation in order for the External Auditor to then give their opinion on the accounts; and

2.3 The Audit Committee is asked to approve the Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year ended 31 March 2019, with approval for any further non-material changes arising to be made by management in consultation with the Committee Chair to enable publication by the deadline of 31 July 2019.

## 3. Consultation

### a) Have Risks and Impact Analysis been carried out?

No

### b) Risks and Impact Analysis

N/A

## 4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Audit Completion Reports – <b>TO FOLLOW</b>
Appendix B	Letter of Representation – Lincolnshire County Council
Appendix B1	Letter of Representation – Lincolnshire Pension Fund
Appendix C	Lincolnshire County Council Statement of Accounts 2018/19
Appendix D	List of Amendments to Statements of Accounts 2018/19

## 5. Background Papers

No Background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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