

**REPORT OF: DIRECTOR OF FINANCE**

**TO: AUDIT COMMITTEE**

**DATE: 23 September 2014**

## **Approval of the Statement of Accounts 2013/14**

### **1. PURPOSE**

The report outlines the issues arising from the external audit of the Council's 2013/14 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication by 30 September 2014, as required by the Accounts and Audit (England) Regulations 2011.

### **2. RECOMMENDATIONS**

The Executive Member NOTES the following:

1. To note the outcome of the audit of the Council's financial statements and the Value for Money conclusion as presented by Grant Thornton in their Audit Findings Report for 2013/14 (previous agenda item).
2. To approve the Statement of Accounts for 2013/14.
3. To approve the draft letter of representation from the Director of Finance to the external auditors as shown in the appendix.

### **3. BACKGROUND**

The Accounts and Audit (England) Regulations 2011 require that the accounts should be considered and approved by members prior to publication by the 30 September following the year to which they relate. This will enable the Audit Committee to review and approve the accounts, having considered the issues raised by the auditors in the Audit Findings Report.

The 2013/14 Draft Statement of Accounts was certified by the Director of Finance on 24th June 2014, and subsequently published on the Council's website.

### **4. RATIONALE**

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework. This "dual accounting" approach requires some items to be accounted for in ways that do not reflect how the Council manages its budget.

For 2013/14, the presentation of the Council's accounts has been reviewed in line with the CIPFA publication "Financial statements – a good practice guide". The order and content of the accounting statements and disclosure notes have been amended with the aim of providing clearer and more understandable financial information.

**Foreword by the Director of Finance** – this opening section includes a commentary on the key issues impacting on the financial position of the Council during the year, together with a brief summary of the content of the accounts. It also includes an explanation of changes in accounting policy that have resulted in the restatement of prior year figures.

**Financial Report** (page 7) - this section largely contains details of the revenue, capital and treasury management outturn position for the year.

**Comprehensive Income and Expenditure Statement** (page 15) - this statement shows the accounting cost in the year of providing services in accordance with the accounting framework provided by international reporting standards, rather than the legislative framework. The Council raises local taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

**Movement in Reserves Statement** (page 16) - this statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and "unusable reserves". The statement draws together data from other parts of the accounts, as follows:

- the opening Balance Sheet figures,
- the results for the year as presented in the Comprehensive Income and Expenditure Statement, which are prepared in line with current accounting practices,
- the adjustments required to convert the amounts prepared on an accounting basis to the statutory amounts required to be charged to the General Fund for council tax setting purposes,
- any discretionary transfers to or from earmarked reserves undertaken by the Council, to arrive at the closing Balance Sheet figures.

The financial performance of the Council is monitored during the year with budget variations being reported as soon as they are identified and the predicted level of reserves adjusted accordingly. The accounting position for the year, as reported in the Comprehensive Income and Expenditure Statement, is a deficit on the provision of services of £16.243 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows an increase in General Fund reserves of £10.277 million in 2013/14, which is available to fund efficiency and investment programmes in future years. This final revenue outturn position was reported to the Executive Board on 17th July 2014.

**Balance Sheet** (page 17) - this shows the value at the balance sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held by the Council, which are reported in two categories – usable and unusable.

The total amount of General Fund revenue reserves held by the Council at 31st March 2014 was £56.226 million. This comprises unallocated reserves of £12.763 million and other reserves which are earmarked and set aside for specific purposes of £41.464 million. This latter figure includes schools' balances of £15.006 million which represents net underspendings on schools' delegated budgets. Details of the movements in reserves are shown in Notes 2 and 3 to the financial statements (pages 24-26).

The pension scheme liability of £171.192 million included within the Other Long Term Liabilities line of the Balance Sheet represents the underlying commitments that the Council has in the long term to pay retirement benefits. However, the arrangements for funding means that the financial

position of the Council remains healthy with the deficit being made good by increased contributions over the remaining work life of employees as determined by the scheme actuary. In addition to the liabilities reported in the Balance sheet, details of four contingent liabilities have been identified at Note 34 (page 68) for which the Council may have a future liability for, but where there remains some level of uncertainty.

**Cash Flow Statement** (page 18) - this statement shows the changes in cash and cash equivalents of the Council during the reporting period. It analyses cash flows into those generated by operating activities, investing activities and financing activities. The detail of each category is contained within Note 32 (pages 63-65).

**Notes to the Financial Statements** (pages 19-69) – the order of the disclosure notes has been revised for 2013/14 in order to provide a narrative that flows logically, with the initial notes providing information to support the Comprehensive Income and Expenditure Statement and an explanation of how that differs from the portfolio budget monitoring position presented throughout the financial year. Notes 12-32 provide further analysis of the amounts included in the Balance sheet and Cash Flow Statement, and additional disclosures required by the accounting Code follow at the end of the section. An index of the notes is included at page 2.

**Collection Fund** (pages 70-71) – this statement reflects the statutory obligation for billing authorities to maintain a separate fund for transactions in relation to the collection of council tax and non-domestic rates, and the distribution of those sums to the Council and other parties (i.e. central government, Lancashire Police Authority and Lancashire Combined Fire Authority). The Collection Fund Income and Expenditure Statement reports a surplus for the year in respect of council tax, and a deficit in respect of non-domestic rates, both of which will be taken in account when setting future years' budgets.

**Group Accounts** – whilst the Council does have some associate company and joint venture interests, the financial implications of including these in a set of group accounts are not considered to be material to the understanding of the financial position of the Council. Information about these interests is, however, contained within the notes to the financial statements.

**Accounting Policies** (pages 72-90) – in addition to a summary of the main accounting policies used in producing the accounts, this section includes details of:

- accounting standards issued but not yet adopted
- significant judgements made in applying the accounting policies
- areas where a degree of uncertainty exists due to the use of estimated figures.

**Annual Governance Statement** – this statement was considered and approved by the Audit Committee in June 2014 and has been included within the Statement of Accounts at pages 91-103.

## 5. KEY ISSUES

The Audit Findings report identifies no material misstatements that would require any adjustment to the financial statements, and Grant Thornton are expecting to issue an unqualified audit opinion.

During the audit a small number of narrative amendments were identified, which have been incorporated in the final accounts in order to improve the overall disclosure in the financial statements. The most significant issues relate to:

- the provision of additional evidence to demonstrate that the valuation of assets not re-

- valued in year was materially up to date; and
- disclosure of the financial impact for 2014/15 accounts of the conversion of a school financed by the Private Finance Initiative (PFI) to academy status with effect from 1 May 2014.

## 6. POLICY IMPLICATIONS

Compliance with accounting standards is fundamental to the Council's organisational delivery priority of delivering a "fit for purpose" organisation.

## 7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising as a result of this report.

## 8. LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2011 apply for accounts and reports relating to the financial year 2013/14, and completion in accordance with International Financial Reporting Standards is required in order to comply with both the statutory framework established by the Accounts and Audit Regulations, and proper accounting practices required by Section 21(2) of the Local Government Act 2003.

## 9. RESOURCE IMPLICATIONS

The Accounts and Audit (England) Regulations 2011 apply for accounts and reports relating to the financial year 2013/14, and completion in accordance with International Financial Reporting Standards is required in order to comply with both the statutory framework established by the Accounts and Audit Regulations, and proper accounting practices required by Section 21(2) of the Local Government Act 2003.

## 10. EQUALITY AND HEALTH IMPLICATIONS

**Please select one of the options below. Where appropriate please include the hyperlink to the EIA.**

Option 1  EIA not required – this has been discussed with Corporate Equality.

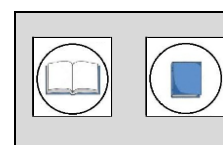
Option 2  In determining this matter the Executive Board members need to consider the Equality Impact Assessment (EIA) associated with this item in advance of making the decision.  
(insert EIA link here)

Option 3  Attached is a copy of the EIA which Executive Board members need to consider in advance of making the decision.

## 11. CONSULTATIONS

The closure of accounts process, and issues arising have been reviewed and discussed with the Council's external auditors, Grant Thornton, on a regular basis.

<b>VERSION:</b>	0.01
<b>CONTACT OFFICER:</b>	Julie Jewson
<b>DATE:</b>	12 September 2014
<b>BACKGROUND PAPER:</b>	Statement of Accounts 2013/14 Accounts and Audit (England) Regulations 2011 (SI 2011 No 817) The Code of Practice on Local Authority Accounting in the UK 2013/14



## APPENDIX

### Draft letter of representation.

#### **Blackburn with Darwen Borough Council**

#### **Financial Statements for the year ended 31 March 2014**

This representation letter is provided in connection with the audit of the financial statements of Blackburn with Darwen Borough Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- ix The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

- xii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and

- c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

### **Annual Governance Statement**

- xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 23 September 2014.

*The letter must be signed by both the Chair of the Audit Committee and the Director of Finance.*

