



**REPORT OF: DIRECTOR OF FINANCE & I.T.**

**TO: AUDIT COMMITTEE**

**DATE: 20<sup>th</sup> September 2016**

## **Approval of the Statement of Accounts 2015/16**

### **1. PURPOSE**

The report outlines the issues arising from the external audit of the Council's 2015/16 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication by 30<sup>th</sup> September 2016, as required by the Accounts and Audit Regulations 2015.

### **2. RECOMMENDATIONS**

That the Audit Committee:

1. Notes 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 2015/16 (previous agenda item).
2. Approves the Statement of Accounts for 2015/16.
3. Approves the draft letter of representation from the Director of Finance & I.T. to the external auditors as shown in the appendix.
4. Notes the future changes to the content of the statement of accounts (2016/17) and the timescales for approval and publication (2017/18).

### **3. BACKGROUND**

The Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by the 30<sup>th</sup> 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 2015/16 Draft Statement of Accounts was certified by the Director of Finance on 23<sup>rd</sup> June 2016, and subsequently published on the Council's website.

### **4. KEY COMPONENTS OF THE 2015/16 STATEMENT OF ACCOUNTS**

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.

**Narrative Statement** – this replaces the explanatory foreword in the accounts from 2015/16 and includes some additional requirements. Regulation 8 (2) of the Accounts and Audit Regulations 2015 requires that the narrative statement includes "comment by the authority on its financial

performance and economy, efficiency and effectiveness in its use of resources over the financial year". The narrative statement also includes an analysis of the financial and non-financial performance of the Council in the financial year and of its position at the end of the year, together with a brief summary of the content of the accounts.

**Comprehensive Income and Expenditure Statement** (page 20) - 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 21) - 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 £48.714 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows a reduction in General Fund reserves of £6.670 million in 2015/16, due largely to an overspend of £4.727 million in relation to portfolio cash limited budgets. This final revenue outturn position was reported to the Executive Board on 14<sup>th</sup> July 2016.

**Balance Sheet** (page 22) - 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 2016 was £43.495 million. This comprises unallocated reserves of £5.067 million and other reserves which are earmarked and set aside for specific purposes of £38.428 million. This latter figure includes schools' balances of £19.760 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 29-31).

The pension scheme liability of £204.911 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 three contingent liabilities have been identified at Note 34 (page 73) for which the Council may have a future liability, but where there remains some level of uncertainty.

**Cash Flow Statement** (page 23) - 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 68-69).

**Notes to the Financial Statements** (pages 24-74) – the order of the disclosure notes aims 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 75-76) – 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, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority). The Collection Fund Income and Expenditure Statement reports a deficit for the year in respect of both council tax and non-domestic rates. The Fund balance carried forward in respect of both council tax and non-domestic rates will be taken into 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 77-96) – 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 2016 and has been included within the Statement of Accounts at pages 97-110.

## 5. KEY ISSUES

### 2015/16 Statement of Accounts

The Audit Findings report has not identified any adjustments affecting the Council's reported financial position, and Grant Thornton are expecting to issue an unqualified audit opinion.

Although there are no amendments required to the core financial statements, a number of adjustments to the explanatory disclosure notes have been agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements. The most significant issues relate to:

- Note 8 Employees earning over £50,000 - an explanatory note has been added to the financial statements to clarify that "remuneration" is net of any salary sacrifice payments that staff elect to make.
- Note 8 Senior Officers Remuneration - amendments to this note were made in order to fully reflect the requirements of accounting guidance.
- Note 8 Termination Benefits - The version of this note presented for audit did not accurately differentiate between compulsory redundancies and other exit packages. The note has subsequently been fully reviewed, agreed with the auditor and amended within the statement of accounts.
- Note 26 Financial Instruments - This note has been amended to include revised fair values in relation to Public Works Loan Board (PWLb) loans based on discounted cash flows rather than premature repayment rates.
- A small number of changes were made to improve the Narrative Report and other disclosure notes.

In addition, the Council has agreed to review its capital accounting processes, particularly in relation to the treatment of revaluation of land and buildings assets, in order to improve the skills and knowledge of the technical accounting team.

### **2016/17 Statement of Accounts**

The *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* includes the adoption of the asset valuation requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* (The Transport Code). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

The Council's transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with its current accounting policies. From 1st April 2016, these assets will be referred to as the "Highways Network Asset" (HNA) and will be disclosed separately as a single asset on the face of the Balance Sheet, with its valuation built up from data maintained by highways engineers. It will be measured at Depreciated Replacement Cost (DRC) by calculating the cost of replacing the asset with its modern equivalent, then applying deductions for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use. This approach will harmonise the valuation methods used by local and central government and is considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by local authorities.

This change, from the existing historic cost basis, will be applied prospectively i.e. with effect from 1<sup>st</sup> April 2016 with no requirement for the 2015/16 position to be restated.

The impact on the Council's Balance sheet will be significant, with the value of non-current assets likely to increase by several million pounds. It should be noted, however, that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the net worth of the Council's Balance Sheet is zero. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the General Fund, there is no associated funding requirement and there will be no impact on the Council's budget.

### **2017/18 Statement of Accounts**

From 2017/18, the timescales in relation to the signing, approval and publication of the statement of accounts, as specified in the Accounts and Audit Regulations 2015, will change. The relevant dates specified below all relate to the financial year immediately following the end of the financial year to which the statement of accounts relates:

- The responsible financial officer must sign and date the statement of accounts, confirming that they present a true and fair view of the financial position of the Council at the end of the financial year to which it relates and the Council's income and expenditure for that financial year, **by 31<sup>st</sup> May**.
- The period for the exercise of public rights (of inspection of the accounts) must include the **first 10 working days of June**.
- Following the conclusion of the period for the exercise of public rights and the audit of the accounts, the Council's Audit Committee must consider the statement of accounts and approve them by a resolution of that committee **before 31<sup>st</sup> July**. The responsible financial officer must re-confirm on behalf of the Council that they are satisfied that the statement of accounts presents a true and fair view before the Audit Committee approval.
- After approving the statement of accounts the Council must publish (which must include publication on the authority's website) the statement of accounts together with any audit certificate or opinion, the annual governance statement, and the narrative statement **by 31<sup>st</sup> July**.

## 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 2015 apply for accounts and reports relating to the financial year 2015/16, 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

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

## 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.

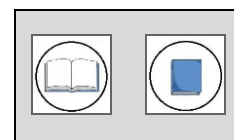
Option 2 ☐ In determining this matter the Executive Board members need to consider the Equality Impact Assessment (EIA) associated with this item in advance of making the decision.  
(insert EIA link here)

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 <sup>th</sup> September 2016
<b>BACKGROUND PAPER:</b>	Statement of Accounts 2015/16



Draft letter of representation.**Blackburn with Darwen Borough Council****Financial Statements for the year ended 31 March 2016**

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 2016 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 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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 the United Kingdom ("the Code"), which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used 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.
- vii Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent,
  - b. none of the assets of the Council has been assigned, pledged or mortgaged,
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits 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 post-employment benefits have been identified and properly accounted for.

- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the amendments, misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.
- xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xv 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**

- xvi 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.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix 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.
- xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:

- 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.

xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxii 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.

xxiii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

### **Annual Governance Statement**

xxiv 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

### **Narrative Statement**

xxv The disclosures within the Narrative Statement fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 20 September 2016.

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