

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

**TO:** AUDIT AND GOVERNANCE COMMITTEE

**DATE:** 19<sup>th</sup> September 2017

## Approval of the Statement of Accounts 2016/17

### 1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2016/17 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication by 30<sup>th</sup> September 2017, 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 2016/17 (previous agenda item).
2. Approves the Statement of Accounts for 2016/17.
3. Approves the letter of representation from the Director of Finance & I.T. to the external auditors for which a draft is provided at Appendix 1, with the final version to be made available at the meeting.
4. Notes the future change to the timescales for approval and publication in 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 their Audit Findings Report.

The 2016/17 Draft Statement of Accounts was certified by the Director of Finance and I.T. on 14<sup>th</sup> June 2017, and subsequently published on the Council's website.

### 4. KEY COMPONENTS OF THE 2016/17 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 Report** – this introduction to the accounts includes a commentary by the Council on its economy, efficiency and effectiveness in its use of resources over the financial year. It 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 21) - 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.

Following changes in the 2016 Local Authority Accounting Code, the Council is no longer required to report the cost of individual services within the accounting statements in accordance with the format specified in the CIPFA Service Reporting Code of Practice (SeRCOP). Therefore, analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is now presented to reflect how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio cash limits.

**Movement in Reserves Statement** (page 22) - 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,

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 £22.081 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows a reduction in General Fund reserves of £6.150 million in 2016/17, compared to a budgeted use of reserves of £3.217 million when the annual budget was approved in February 2016. This final revenue outturn position was reported to the Executive Board on 13<sup>th</sup> July 2017.

A reconciliation of revenue outturn to the Comprehensive Income and Expenditure Statement is provided in Note 1 - Expenditure and Funding Analysis (pages 25-27), with further details of the accounting adjustments made in accordance with proper accounting practice in Note 3 (pages 30-31).

**Balance Sheet** (page 23) - 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 2017 was £37.345 million. This comprises unallocated reserves of £6.189 million and other reserves which are earmarked and set aside for specific purposes of £31.156 million. This latter figure includes £10.644 million reserves held in respect of schools. Details of the movements in reserves are shown in Note 30 to the financial statements (pages 57-58).

The Other Long Term Liabilities line of the Balance Sheet, includes the Local Government pension scheme liability of £285.067 million and the long-term element of the liability in relation to the PFI contract for BSF Schools. The pension scheme liability 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.

**Cash Flow Statement** (page 24) - 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 25-74) – 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 75-77) – 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.

**Accounting Policies** (pages 78-95) – 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 2017 and has been included within the Statement of Accounts at pages 96-110.

## 5. KEY ISSUES

### 2016/17 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 full compliance with accounting practices and to improve the presentation of the financial statements. The most significant issues relate to:

- Note 8 Senior Officers Remuneration - the name of the Deputy Chief Executive should have been disclosed and the Chief Executive's remuneration was overstated by a small amount.
- Note 8 Termination Benefits - the version of this note presented for audit did not include accrued amounts for redundancies and other exit payments agreed but not paid at the Balance Sheet date.
- Note 11 Trading Operations - was overstated by £5.9 million as the expenditure reported included an amount reflecting the downward valuation of the former market site, which had been charged to the Mall Market cost centre in error, and does not relate to current trading operations
- Note 13 Property, Plant and Equipment (PPE) - the PPE categories required amendment to recognise a significant Surplus Asset, by reclassification from Operational Land and Buildings. Also, part of the Pennine Reach scheme was reclassified from Assets Under Construction to Operational Land and Buildings.
- Note 14 Capital Expenditure and Financing - the use of capital receipts to reduce the

Council's indebtedness was not shown in the breakdown of the movements in the Capital Financing Requirement.

- Note 26 Financial Instruments - the audit team requested a number of changes to the classification and presentation of these disclosures in order to comply fully with accounting guidance.
- Accounting Policies - Estimation Uncertainty - the disclosure in relation to estimates for depreciation and amortisation of non-current assets only referred to the amount of depreciation charged in year, rather than both depreciation and amortisation - an understatement of £1.5 million.
- A small number of changes were made to improve the Narrative Report and other disclosure notes.

In addition, there were three items raised by the Auditor that were unadjusted in the Statement of Accounts

- Within the Collection Fund, the accounting provision for appeals against the rateable value determined by the Valuation Office Agency was overstated by £2.7 million. This was due to an error in the approach taken to adjust for multiple appeals in respect of the same property. As the figure used in the draft accounts had already been provided to the other precepting bodies (Lancashire Fire and Rescue Authority and central government) and was considered immaterial in the context of the accounting statements, it was agreed not to adjust for this error.
- The Council does not propose to include a prior period adjustment disclosure in the financial statements to reflect the presentational changes to the Comprehensive Income and Expenditure Account introduced as part of the 2016-17 accounting code changes on the basis that its inclusion would not add to the reader of the account's understanding of the Council's financial position and performance.
- In relation to the Council's Better Care Fund (BCF) pooled budget arrangement with Blackburn with Darwen Clinical Commissioning Group (CCG), the Council should only account for its share of income and expenditure. However, the accounts include the full amount of BCF deposited in the pooled fund as income, and the transactions to transfer funds to the CCG as gross expenditure. As a result both income and gross expenditure have been overstated, although there is no impact on the outturn position of the Council.

The Council has agreed to expand its capital accounting processes, particularly in relation to maintaining and updating a record of assets meeting the definition of a "surplus asset" in the CIPFA Accounting Code of Practice.

## **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 and Governance 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 2016/17, 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)

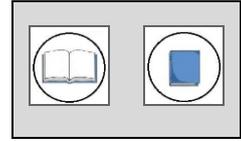
Option 3  Attached is a copy of the EIA which Executive Board members need to consider in advance of making the decision.

## 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>	11 September 2017

<b>BACKGROUND PAPER:</b>	Statement of Accounts 2016/17
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Draft letter of representation.

**Blackburn with Darwen Borough Council**

**Financial Statements for the year ended 31 March 2017**

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 2017 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 2016/17 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 adjusted misstatements, and 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 and attached. 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 The financial statements are free of material misstatements, including omissions.
- xv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xvi 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**

- xvii 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.
- xviii We have communicated to you all deficiencies in internal control of which management is aware.
- xix All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx 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.

- xxi 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.
- xxii 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.
- xxiii 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.
- xxiv 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.
- xxv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- xxvi We have made appropriate enquires to assure ourselves that the provision required in respect of the closed landfill sites is not material.
- xxvii We have made appropriate enquiries and are satisfied that the value of assets classified as surplus assets in Note 13 to the accounts is not materially misstated.
- xxviii We have made appropriate enquires and are satisfied that there is no material impairment to the Council's non-current assets in light of rectification works which are likely to be required in respect of the use of external cladding

### **Annual Governance Statement**

xxix 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**

xxx 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 19 September 2017.

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