



**REPORT TO :** Audit and Governance Committee

**LEAD OFFICER:** Director of Finance and Customer Services

**DATE:** 24th July 2018

**WARD/S AFFECTED:** All

## Approval of the Statement of Accounts 2017/18

### 1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2017/18 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication by 31st July 2018, as required by the Accounts and Audit Regulations 2015.

### 2. RECOMMENDATIONS

Audit and Governance Committee is recommended to

1. 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 2017/18 (previous agenda item).
2. Approves the Statement of Accounts for 2017/18.
3. Approves the letter of representation from the Director of Finance & Customer Services. to the external auditors for which a draft is provided at Appendix 1, with the final version to be made available at the meeting.

### 3. BACKGROUND

The Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by the 31st July following the year to which they relate. This will enable the Audit and Governance Committee to review and approve the accounts, having considered the issues raised by the auditors in their Audit Findings Report.

The 2017/18 Draft Statement of Accounts was certified by the Director of Finance and Customer Services on 31<sup>st</sup> May 2018, and subsequently published on the Council's website. The audit of those draft accounts commenced at the beginning of June 2018 and amendments have been made to the accounts in line with audit finding to date.

### 4. KEY COMPONENTS OF THE 2017/18 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 on the key issues affecting the Council over the financial year and the impact on its accounts. It also includes an analysis of the financial and non-financial performance of the Council, together with a brief summary of the content of the accounts.

**Comprehensive Income and Expenditure Statement** (page 22) - 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.

Analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is presented to reflect how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio controllable budgets.

**Movement in Reserves Statement** (page 23) - 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 £21.677 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows a reduction in General Fund reserves of £3.389 million in 2017/18, compared to a budgeted contribution to reserves of £1.573 million when the annual budget was approved in February 2017 (a difference of £4.962 million). This final revenue outturn position was reported to the Executive Board on 5<sup>th</sup> July 2018.

A reconciliation of revenue outturn to the Comprehensive Income and Expenditure Statement is provided in Note 1 - Expenditure and Funding Analysis (pages 26-28), with further details of the accounting adjustments made in accordance with proper accounting practice in Note 3 (pages 30-31).

**Balance Sheet** (page 24) - 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 2018 was £33.956 million. This comprises unallocated reserves of £6.055 million and earmarked reserves of £27.901 million, including:

- reserves set aside for discretionary purposes of £11.017 million
- reserves set aside for specified non-discretionary purposes £2.090 million.
- £14.383 million reserves held in respect of schools
- £0.411 million held in respect of joint arrangements.

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 £249.217 million and the long-term element of the liability in relation to the PFI contract for BSF Schools (£65.130 million). 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 25) - 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 69-70).

**Notes to the Financial Statements** (pages 26-75) – 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 76-78)** – 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 79-97) – 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 will be formally approved by the Audit and Governance Committee in July 2018 prior to being included within the final published Statement of Accounts at pages 98-113.

## 5. KEY ISSUES

### **New timescales for preparation and audit of 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, have been brought forward as follows:

- 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 the 31st May following the year to which they relate..
- Following the conclusion of 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 the 31st July following the year to which they relate. 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 the 31st July following the year to which they relate.

### **Audit Findings Report**

The Audit Findings Report, issued by the Council's external auditor, highlights the key findings arising from the final accounts audit in order that those charged with governance (i.e. the Audit and Governance Committee) may consider the issues prior to their approval of the Statement of Accounts.

A number of adjustments have been made to the Statement of Accounts published on 31<sup>st</sup> May 2018 in order to correct misstatements and misclassifications and to enhance the Narrative Report and disclosure notes. Further details of these amendments are included within the Audit Findings Report.

There are two unadjusted errors included in the Audit Findings Report:

- Land and Buildings are overstated by £1 million in relation to land at Witton Park High School, which should have been disposed of in the accounts when the school converted to academy status in a previous year.
- An asset valued at £500,000 has been misclassified as Land and Buildings in Note 13, which analysed movements in Property, Plant and Equipment. The asset should have been reported under the Surplus assets category.

These amounts have not been adjusted in the 2017/18 Statement of Accounts as they are immaterial to the results of the Council and its financial position as at 31 March 2018. Both items will be corrected in the 2018/19 accounts.

### **Letter of Representation**

Draft wording for the letter of representation, which the Council is proposing to issue to Grant Thornton, following approval by Audit and Governance Committee, is included at Appendix 1.

## **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 2017/18, 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.

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**9. RESOURCE IMPLICATIONS**

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

**10. EQUALITY & HEALTH IMPLICATIONS**

There are no equality or health implications arising as a result of this report.

<b>VERSION:</b>	<b>0.01</b>
<b>CONTACT OFFICER:</b>	Julie Jewson, Senior Finance Manager
<b>DATE:</b>	19 <sup>th</sup> July 2018
<b>BACKGROUND PAPER:</b>	Statement of Accounts 2017/18

Draft letter of representation.

## **Blackburn with Darwen Borough Council**

### **Financial Statements for the year ended 31 March 2018**

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 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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**

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), in particular the financial statements are fairly stated in accordance therewith.

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.

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.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

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.

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.

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.

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.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

We have considered the two unadjusted misstatements included in your Audit Findings Report and included in Appendix A to this representation letter. 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 for the reasons noted in the Audit Findings Report.

The financial statements are free of material misstatements, including omissions.

Actual or possible litigation claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

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**

We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the Council 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.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

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.

We have disclosed to you all our knowledge of 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.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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.

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.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

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**

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 24 July 2018.

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



Unadjusted misstatements schedule

	<b>Debit</b>	<b>Credit</b>
	<b>£</b>	<b>£</b>
<b>(1)</b>		
Land and Buildings (Balance sheet)		1,000,000
Loss on disposal of non-current assets (CIES – Other operating expenditure)	1,000,000	
Movement in Reserves Statement		1,000,000
Capital Adjustments Account (Balance Sheet)	1,000,000	

This relates to the valuation of Land at Witton Park High School which is an Academy School. Considering the lease between the Council and the Academy is over 100 years, there is no real existing use value of this land to the Council and therefore should be valued at nominal £1 on the balance sheet.

**(2)**

Land and Buildings (Balance sheet – Note 13)		500,000
Surplus Assets (Balance sheet – Note 13)	500,000	

Misclassification of Property Plant and Equipment assets categories within note 13 to the Statement of Accounts. The amount above should have been reported under the Surplus Assets category rather than under Land and Buildings. This is a disclosure adjustment only within note 13.

We have not adjusted the financial statements for these misstatements brought to our attention as it is immaterial to the results of the Council and its financial position at the year-ended 31 March 2018.