



REPORT TO : Audit and Governance Committee

LEAD OFFICER: Director of Finance and Customer Services

DATE: 6th August 2019

WARD/S AFFECTED: All

Approval of the Statement of Accounts 2018/19

1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2018/19 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication, 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 2018/19 (previous agenda item).
2. Approve the Statement of Accounts for 2018/19.
3. Approve 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 2018/19 draft Statement of Accounts were certified by the Director of Finance and Customer Services on 31st May 2019, and subsequently published on the Council's website. The audit of those draft accounts commenced at the beginning of June 2019 and amendments have been made to the accounts in line with audit findings to date.

The external audit of the accounts was not concluded in time for the accounts to be published by 31 July, in the main due to the additional time required to collate further information regarding pensions, and the auditors requiring additional time to agree the Council's accounting treatment of its pension costs following the McCloud judgement. This is the case for numerous local authorities

across the country.

In order to comply with the Accounts and Audit Regulations 2015, a notice has been published on the Council's website stating that the statement of accounts cannot currently be published, and confirming that the accounts will be published as soon as reasonably practicable after the receipt of a report from the auditor which contains the auditor's final findings from their audit.

4. KEY COMPONENTS OF THE 2018/19 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.

The Core Financial Statements

The accounts consist of the following core financial statements supported by explanatory notes and the accounting policies applied by the Council in preparing and presenting those financial statements

Comprehensive Income and Expenditure Statement (page 30) - 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 and the Expenditure and Funding Analysis (Note 1 – pages 35-37).

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 32) - this statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" and "unusable reserves". Also, how those movements are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The *Net (increase) / decrease* line shows the true statutory General Fund Balance movements in the year following those adjustments.

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 £12.261 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows a reduction in General Fund reserves of £1.030 million in 2018/19, compared to a budgeted contribution to/from reserves of zero when the annual budget was approved in February 2018. This final revenue outturn position was reported to the Executive Board on 13th June 2019.

Further details of the accounting adjustments made in accordance with proper accounting practice are in Note 3 (pages 39-40).

Balance Sheet (page 33) - this shows the value as at 31st March of the assets and liabilities

recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council, which are reported in two categories:

- **Usable reserves** - those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- **Unusable reserves** - these are not able to be used to provide services, and include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations*.

The total amount of General Fund revenue reserves held by the Council at 31st March 2019 was £32.926 million.

Usable Reserves	31st March 2019 £000
Earmarked Reserves:	
- set aside for discretionary purposes	14,463
- held in respect of schools	12,144
- held in respect of joint arrangements	416
	27,023
Unallocated Reserves	5,903
General Fund Reserves	32,926
Capital Receipts Reserve	250
Capital Grants Unapplied	6,929
Total Usable Reserves	40,105

Details of the movements in reserves are shown in Note 30 to the financial statements (pages 68-69).

The *Other Long Term Liabilities* line of the Balance Sheet includes the long-term element of the liability in relation to the PFI contract for BSF Schools (£63.414 million) and the Local Government Pension Scheme liability of £264.662 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 34) - 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 80-81).

Notes to the Financial Statements (pages 35-85) – 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 13-32 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 86-88)

This is a supplementary statement which 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 89-108)

In addition to a summary of the main accounting policies applied by the Council in preparing and presenting the statement of accounts, this section includes details of:

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

Annual Governance Statement (pages 109-124)

This statement was formally approved by the Audit and Governance Committee in June 2019 and signed by the Leader of the Council and Chief Executive on 27th June 2019.

5. KEY ISSUES

Audit Findings Report

The Audit Findings Report, issued by the Council's external auditor, Grant Thornton, 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 31st May 2019 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 also a number of unadjusted misstatements included in the Audit Findings Report. These amounts have not been adjusted in the 2018/19 Statement of Accounts as they are immaterial to the results of the Council and its financial position as at 31 March 2019, although they will be addressed in the 2019/20 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 2018/19, 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 & HEALTH IMPLICATIONS

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

VERSION:	0.01
CONTACT OFFICER:	Julie Jewson, Senior Finance Manager
DATE:	30 th July 2019
BACKGROUND PAPER:	Statement of Accounts 2018/19

Draft letter of representation.

Blackburn with Darwen Borough Council

Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Blackburn with Darwen Council for the year ended 31 March 2019 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 2018/19 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 2018/19 ("the Code"); in particular the financial statements are fairly presented 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 any 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. 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 other material judgements that need to be disclosed.

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 unadjusted misstatements schedule 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.

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

Actual or possible litigation and 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 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.

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 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 Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 6 August 2019.

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

	Debit	Credit
	£000	£000
(1) Impact of McCloud Judgement		
Pensions Liability (Balance Sheet)	5,855	
Past service costs (CIES – Other operating expenditure)		(5,855)

This relates to the potential impact of the McCloud judgement; a case concerning the transitional protections given to scheme members of the judges and firefighters schemes as part of public service pensions reform, which have subsequently been upheld as unlawful on the grounds of age discrimination. The Lancashire County Pension Fund's actuary has provided the Council with estimates of the potential impact of the McCloud judgement i. e an additional pension liability as at 31 March 2019 resulting from an additional past service cost.

Although the figures in the financial statements have not been adjusted for this issue, an additional narrative disclosure has been added to Note 31 *Post Employment Benefits* (page 73)

(2) Internal recharges		
Gross expenditure – various services (CIES – Cost of services)		(3,293)
Income – various services (CIES – Cost of services)	3,293	

Where they can be readily identified, internal recharges have been excluded from both gross expenditure and income in the service lines of the Comprehensive Income and Expenditure Statement (CIES). An amount of £3.293 million of income from recharges to capital and revenue budgets, has been identified but this income and the related expenditure transactions remain in the CIES due to the difficulty in tracing all the expenditure transactions.

(3) Provision no longer required		
Income – Environment (CIES – Cost of services)		(400)
Provisions (Balance Sheet)	400	
Earmarked Reserves (Balance Sheet)		(400)

This provision for remediation measures and aftercare costs in respect of closed landfill sites should have been reclassified as an earmarked reserve prior to year-end. The transfer and associated budgetary / accounting adjustments have been included in the Quarter 1 Revenue Budget Monitoring Report

	Debit	Credit
	£000	£000
(4) Under accrual of capital expenditure		
Assets under construction (Balance Sheet)	604	
Short term creditors (Balance Sheet)		(604)

Capital expenditure for 2018/19 has been understated by the failure to accrue for costs in relation to the Cinema capital scheme i.e. costs relating to capital works carried out in February / March 2019 (2018/19) but paid for in April / May 2019 (2019/20)

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-ended 31 March 2019.