

PART 1 - PUBLIC

Decision Maker: General Purposes & Licensing Committee

Date: 17th September 2015

Decision Type: Urgent Non-Executive Non-Key

Title: **AUDIT OF FINANCIAL STATEMENTS 2014/15**

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Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

- 1.1 This report sets out the Council's 2014/15 statutory accounts for approval by Members in accordance with the requirements of the Accounts and Audit (England) Regulations 2011. The report also details the conclusions and significant issues arising from the work carried out in relation to the audit of the 2014/15 accounts.
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2. **RECOMMENDATION(S)**

2.1 **The Committee is requested to:**

- (a) Approve the Council's statutory accounts for 2014/15;**
- (b) In accordance with the requirements of the Accounts and Audit (England) Regulations 2011, following approval, the Chairman of this Committee shall sign and date the statutory statements on page 1 as a formal record of the Committee's approval;**
- (c) Consider the external auditors' report;**
- (d) Confirm agreement with the auditors' conclusion on their independence and objectivity;**
- (e) Authorise the Chairman of this Committee to sign the letter of representation for 2014/15 on behalf of the Council;**
- (f) Approve the Annual Governance Statement which accompanies the statutory statement of accounts.**

Corporate Policy

1. Policy Status: Existing policy.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: N/A
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Council wide
 4. Total current budget for this head: £125m 2014/15 budget (excluding GLA precept)
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 3,760 full-time equivalent posts (per 2014/15 Budget), which includes 1,777 for delegated budgets to schools.
 2. If from existing staff resources, number of staff hours: N/A
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Legal

1. Legal Requirement: Statutory requirement. The statutory duties relating to financial reporting are covered within the Local Government Act 1972; the Local Government Finance Act 1998; the Accounts and Audit Regulations 1996; the Local Government Act 2000; the Accounts and Audit (England) Regulations 2011 and the Local Government Act 2002.
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2014/15 final accounts reflect the financial impact of the Council's strategies and service plans which impact on all of the Council's customers (including council tax payers) and users of the services.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: Council wide

3. COMMENTARY

- 3.1 The Accounts and Audit (England) Regulations 2011 require the Accounts to be considered and approved by resolution of a Committee or Full Council no later than 30th September. Following approval, the Statement of Accounts must be signed and dated by the person presiding at the meeting at which that approval was given.
- 3.2 The Regulations specifically require authorities to prepare the accounts by 30th June and that the responsible financial officer sign, date and certify that the Statement of Accounts present a true and fair view of the financial position of the Authority and of the Authority's income and expenditure for the year. The responsible financial officer must re-certify the presentation of the Statement of Accounts before this Committee approves it.
- 3.3 The external auditors, PricewaterhouseCoopers LLP (PWC), have issued their report on the Financial Statements and Accounts for 2014/15, comprising the Council's main financial statements and Pension Fund accounts. A copy of this report is attached at appendix 1 and includes the findings from the interim and final audits and recommendations for improvement.
- 3.4 The draft accounts were approved by the Director of Finance on 19th June 2015. At the time of writing, the auditors anticipate issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.
- 3.5 The auditors are required to report all uncorrected misstatements identified during the course of the audit, other than those of a trivial nature. In 2014/15, there are no non-trivial uncorrected misstatements to disclose.
- 3.6 Some minor presentational changes were agreed and the financial statements have been updated accordingly. None of these matters have an impact on the Council's revenue accounts or general fund balance.
- 3.7 Accounting standards require that the auditors identify any relevant matters relating to the audit that should be brought to the attention of this Committee. The auditors' report identifies five relevant accounting matters:
- (i) medium term financial strategy;
 - (ii) depreciation of fixtures and fittings;
 - (iii) valuation of the Council's PPE and investment properties;
 - (iv) non-current assets held for sale;
 - (v) pensions liability on the Council's balance sheet.

These items are detailed on pages 10 to 12 of the auditors' report. Overall, the auditors are comfortable with the reasonableness of assumptions used and have determined that there is no material impact on the Statement of Accounts arising from these matters.

- 3.8 The auditors are required to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Audit Commission guidance includes two criteria:
- (i) the organisation has proper arrangements in place for securing financial resilience;
 - (ii) the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

At the time of writing, the auditors anticipate issuing an unqualified value for money conclusion. However, the following matter has been identified which is required to be brought to the attention of this Committee:

- (i) the Authority will need to ensure that actions are underway to resolve the budget gap as identified by the medium term financial strategy;

- 3.9 The auditors' report also reviews accounting systems and systems of internal control and reports on weaknesses in the accounting and internal control systems identified during the audit. A summary of control recommendations is included on pages 19 to 22. There are no significant issues identified which require the attention of this Committee.
- 3.10 The duty to appoint auditors to Local Authorities is a statutory function of the Audit Commission and 2014/15 is the seventh and final year that the audit will be undertaken by PricewaterhouseCoopers LLP (PWC). In September 2014 the Audit Commission wrote to the Council to consult on the appointment of KPMG LLP as Bromley's external auditor from 1st April 2015. The Audit Commission confirmed the appointment in December 2014. Following the closure of the Audit Commission, a new local audit framework came into effect from 1st April 2015. A new body, Public Sector Audit Appointments Ltd (PSAA), is now responsible for appointing auditors to local government, setting audit fees and certification of housing benefit subsidy claims.
- 3.11 The auditors' report details on pages 15 and 17 the requirement for annual disclosure of all relationships between PWC (and associated entities) and the Authority that may reasonably be thought to bear on their independence and objectivity. In conclusion they have confirmed, in their professional judgement, compliance with UK regulatory and professional requirements and that their objectivity is not compromised. This Committee is requested to consider the matters detailed in the auditors' report and confirm agreement with their conclusion on independence and objectivity.
- 3.12 In accordance with the Accounts and Audit (England) Regulations 2011 the Director of Finance, as responsible financial officer, has authenticated and signed the amended accounts and the authorised for issue date has been updated to 17th September 2015. The audited Statement of Accounts, accompanied by the Annual Governance Statement, is attached at appendix 2.
- 3.13 The Council's Accounts and related records were made available for public inspection for 20 working days between 3rd August 2015 and 28th August 2015. This is a requirement of the Regulations and must take place prior to the completion of the audit. The auditor will report verbally should any objection be made.
- 3.14 Members will be aware of the objections made to the 2012/13 and 2013/14 accounts with regard to the Council's parking enforcement contract, bailiff fees and London councils. At the time of writing, the objections have not yet been concluded and the auditor will provide a verbal update as to the status of the work concerning the objections.
- 3.15 The Council must publish its audited 2014/15 Accounts by 30th September 2015. In June 2014 Government issued a consultation setting out draft Regulations proposing an earlier timetable for the publication of both pre-audited and audited accounts. The proposals were implemented under the Accounts and Audit Regulations 2015. The pre audited accounts must be signed and certified by the Responsible Financial Officer by 31st May (currently 30th June) and the audited accounts must now be published by 31st July (currently 30th September). This will be effective from the 2017/18 accounts although authorities are encouraged to move to this new timetable as soon as practicable.

Changes to the arrangements for Public Inspection are effective from the 2015/16 financial year. Whilst Government acknowledge the significant challenge that this will involve for both authorities and auditors, the period of notice is intended to allow time to make the necessary changes to processes and systems.

- 3.16 The Council has very little discretion over the format of its Accounts as they must be presented in the form laid down in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code). The Code is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) under the oversight of the Financial Reporting Advisory Board. The Code requires authorities to produce accounts based on International Financial Reporting Standards (IFRS) while at the same time recognising the particular position of local government where legislative requirements override accounting principles in some areas.
- 3.17 The sections that follow provide a brief commentary on the main points to note in the Accounts.
- 3.18 Movement in Reserves Statement (MIRS)
- 3.18.1 This statement is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (those that can be applied to fund the provision of services) and 'unusable reserves' (those that an Authority is unable to utilise to provide services).
- 3.18.2 The crucial line in the MIRS is the one containing adjustments between the accounting basis and funding basis under regulations. The Comprehensive Income and Expenditure Statement (CI&E Statement) is prepared wholly in accordance with accounting standards but local authorities are subject to specific rules and statutory requirements which, in significant instances, differ substantially from proper accounting practices particularly in relation to capital accounting and retirement benefits. This line reconciles the surplus or deficit on the provision of services as detailed in the CI&E Statement with the statutory amounts required to be charged to the general fund balance for council tax setting purposes.
- 3.18.3 This statement also includes discretionary transfers between the general fund and earmarked reserves.
- 3.18.4 Usable reserves showed an overall increase of £7m in 2014/15 which was mainly due to an increase in the Capital Receipts reserve. Unusable reserves reduced by £72m which was due to reductions to the capital adjustment account (£30m), the revaluation reserve (£36m) and the Pension Fund reserve (£8m), offset by minor increases to other unusable reserves of £2m.
- 3.18.5 The movement on the pension fund reserve was due to a rise in the net liability from £140m to £148m. This was mainly due to interest on liabilities being higher than interest on assets.
- 3.18.6 The reduction of £30m on the Capital Adjustment Account was the result of a number of accounting entries relating to the depreciation and impairment of non current assets and the write-off of asset values on disposal or sale offset by capital grants and other sources of capital financing.

3.18.7 The reduction of £36m on the Revaluation Reserve was made up of an increase of £9m in respect of revaluation gains in the year and a reduction of £45m in respect of previous gains written out on impaired assets and asset disposals.

3.19 The Comprehensive Income and Expenditure Statement (CI&E Statement)

3.19.1 This statement provides a summary of the resources generated and consumed in providing services during the year. It is intended to show the annual activity of the Council in line with accounting practice before allowing for the requirements of statute that certain costs should or should not fall on council tax. This statement reveals a deficit for the year of £65m.

3.19.2 Pensions costs, as defined by International Accounting Standard 19 (IAS19 – formerly FRS17) account for a deficit of £26m, mainly the result of the re-measurement of the net liability, net pensions interest costs and other charges. There is a deficit of £55m in respect of the accounting treatment for the non-current assets of schools that became academies during the year.

3.19.3 The deficit reflected on the CI&E Statement for the year is offset by the movement shown in the MIRS, as detailed within note 7 of the Accounts and section 3.18 above. These two statements should be considered together and the overall position is summarised on page 15 of the accounts. The result is an overall increase in the Council's general fund balance and earmarked reserves of £1m.

3.19.4 The Statement of Accounts reflects the 2014/15 outturn position for both capital and revenue, as reported to the Executive in June 2015, in the required statutory format. As stated in para 3.16, the Council has very little discretion over the format of the accounts. The overall outturn position for 2014/15 was reported to the Executive on 10th June 2015 with more detailed information being reported to individual Portfolio Holders for their respective service areas. This report identified the key cost variations compared with the 2014/15 budget. Details of variations relating to the 2014/15 capital programme outturn were also reported to the Executive in June 2015 and there was no requirement to use General Fund balances to support the capital programme in 2014/15.

3.20 Balance Sheet

3.20.1 The balance sheet provides a snapshot of the Council's financial position, its assets and liabilities, at 31st March 2015. Compared to the position in 2014, Property Plant & Equipment asset values reduced by £87m, mainly as a result of the de-recognition of assets disposed of during the year (£57m mostly relating to academy transfers), additions £13m, depreciation (£8m) and impairment losses (£42m). In addition the Council's investment properties increased by £25m. The Council's assets are valued on different bases depending on the type of asset, as described in accounting policy 17.

3.20.2 Other significant variations between the 2014 and 2015 Balance Sheet dates include a £157m increase in the value of long term investments (1 year or more to maturity), offset by a £47m reduction in the value of investments classified as cash equivalents (instant or easy access) and a reduction of £100m in short term investments (1 year or less to maturity).

3.20.3 The net Pension Fund liability has increased by £8m, mainly the result of interest on liabilities being higher than interest on assets as referred to in para 3.18.5 above. Proper accounting practice requires that the actuarially calculated fund deficit, in relation to Bromley's employees and pensioners, is disclosed on the face of the Council's Balance

Sheet. The net liability of £148m represents the difference between the bid value of assets and the value of liabilities based on a valuation carried out by the Actuary as at 31st March 2015 in accordance with the requirements of IAS19. This is different from the Actuary's triennial valuation (most recently as at 31st March 2013) that determines the contribution rate to the Pension Fund. Although the liability has a significant negative effect on the net worth of the Authority, the contribution payments agreed as a result of the triennial valuation include arrangements to clear the deficit over a 15 year period from 1st April 2014.

3.21 Cash Flow Statement

3.21.1 The cash flow statement summarises all the cash flows from the Council's activities.

3.22 Notes to the Main Statements

3.22.1 The notes to the Accounts are grouped together at the end of the main statements rather than following each statement individually.

3.23 Pension Fund Accounts

3.23.1 These are the accounts of the London Borough of Bromley Pension Fund that provides pension benefits for staff, excluding Teachers. The accounts relate to the whole fund including the assets and liabilities of the scheduled and admitted bodies.

3.23.2 During 2014/15 the net assets of the Fund increased by £117m, due to contributions and other income exceeding the cost of benefits and other payments by £5m and a net gain on investments of £112m.

3.23.3 The Fund actuary values the fund every three years and the most recent full valuation was carried out during 2013/14 on the position at 31st March 2013. The actuary found a solvency level of 82%, a reduction of 2% compared to the position at the 31st March 2010. The next full valuation (as at 31st March 2016) will be carried out by the actuary during 2016/17 and this will determine a revised Fund position and will set employer contribution rates for the three years 2017/18, 2018/19 and 2019/20.

3.23.4 The Accounts also include disclosures in relation to the Bromley part of the Fund, which are based on the assumptions used in the 2013 valuation. Note 45 of the Statement of Accounts explains the IAS19 valuation basis used to prepare the Authority's accounts – this uses different assumptions from those used in the triennial valuation.

3.24 Annual Governance Statement (AGS)

3.24.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. Regulation 4(4) of the Accounts and Audit (England) Regulations 2011 requires that the AGS "accompanies" the Statement of Accounts. Regulation 4(3) of the Regulations requires that the AGS should be considered and approved by a Committee or Full Council.

3.24.2 The draft AGS was approved by Audit Sub Committee on 25th June 2015. No amendments were identified during the audit and this Committee is requested to formally approve the audited AGS which will be published alongside the Statement of Accounts.

4. FINANCIAL IMPLICATIONS

- 4.1 The final revenue and capital outturn for 2014/15 were reported to the Executive on 10th June 2015. Members are referred to these reports for detailed information on variations from approved budgets.
- 4.2 Details of external audit fees, including PWC and the Audit Commission, are set out in note 35 of the financial statements and totalled £192k in 2014/15 (£212k in 2013/14). The 2014/15 fee includes costs of £14k (£20k in 2013/14) relating to the outstanding objections although this cost has not yet been finalised as the work is ongoing.
- 4.3 This report refers to matters reflected in the auditors' report. There are no adjustments to the accounts that have an impact on the Council's revenue outturn position and general fund balance for 2014/15. Accordingly, there is no impact on the level of reserves previously reported to the Executive in the Provisional Final Accounts report on 10th June 2015.

5. LEGAL IMPLICATIONS

- 5.1 The Accounts and Audit (England) Regulations 2011 require the Statement of Accounts to be signed and dated by the responsible financial officer by 30th June immediately following the end of the financial year and subsequently to be considered and approved by a Committee of the Council, or by the Council meeting as a whole, before 30th September.

Non-Applicable Sections:	Policy, Personnel
Background Documents: (Access via Contact Officer)	Provisional Final Accounts – Executive 10th June 2015; Capital Programme Outturn – Executive 10th June 2015; Code of Practice on Local Authority Accounting in the United Kingdom 2014/15; Service Reporting Code of Practice 2014/15; The Accounts and Audit Regulations 2015; Final accounts supporting papers are held in the Technical and Control (Accountancy) Team.