

PART 1 - PUBLIC

Decision Maker: **General Purposes & Licensing Committee**

Date: **14th September 2016**

Decision Type: Urgent Non-Executive Non-Key

Title: **AUDIT OF FINANCIAL STATEMENTS 2015/16**

Contact Officer: Tracey Pearson, Chief Accountant
Tel: 020 8313 4323 E-mail: tracey.pearson@bromley.gov.uk

Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

1.1 This report sets out the Council's 2015/16 statutory accounts for approval by Members in accordance with the requirements of the Accounts and Audit Regulations 2015. The report also details the conclusions and significant issues arising from the work carried out in relation to the audit of the 2015/16 accounts.

2. RECOMMENDATION(S)

2.1 The Committee is requested to:

- (a) Approve the Council's statutory accounts for 2015/16;
- (b) In accordance with the requirements of the Accounts and Audit Regulations 2015, 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) Note the auditors' conclusion on VFM;
- (e) Confirm agreement with the auditors' conclusion on their independence and objectivity;
- (f) Authorise the Chairman of this Committee to sign the letter of representation for 2015/16 on behalf of the Council, see Appendix 2;
- (g) Approve the revised 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: £129m 2015/16 budget (excluding GLA precept)
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 3,218 full-time equivalent posts (per 2015/16 Budget), which includes 1,356 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 Local Government Act 2000; the Accounts and Audit Regulations 2015 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 2015/16 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 Regulations 2015 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, KPMG LLP, have issued their report on the Financial Statements and Accounts for 2015/16, 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 27th June 2016. At the time of writing, the auditors anticipate issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.
- 3.5 In accordance with ISA260, the auditors are required to report all uncorrected audit differences, other than those that they believe are clearly trivial, to those charged with governance. They are also required to report any material misstatements which have been corrected and which they believe should be communicated to the Committee to assist in fulfilling governance responsibilities. The auditors have not identified any issues in the course of the audit that are considered to be material. The audit identified no significant audit adjustments and there are no non-trivial audit differences which remain uncorrected.
- 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 ISA 260 requires that the auditors communicate by exception 'audit matters of governance interest that arise from the audit of the financial statements'. There are no matters that the auditors wish to draw to the attention of the committee other than those highlighted in the auditor's report.
- 3.8 Value For Money Conclusion
- 3.8.1 The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'. This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically'.

- 3.8.2 The previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria, as set out below:
- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people:
 - (i) informed decision making;
 - (ii) sustainable resource deployment;
 - (iii) working with partners and third parties.
- 3.8.3 In their external audit plan, the auditors identified two specific VFM risks – Financial Resilience and Better Care Fund. In line with the risk-based approach set out in the plan, they have:
- assessed the Authority’s key business risks which are relevant to their VFM conclusion;
 - identified the residual audit risks for their VFM conclusion taking account of work undertaken in previous years or as part of their financial statement audit;
 - considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.
- 3.8.4 In both cases the auditors are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate and have concluded that no additional specific risk based work is required.
- 3.8.5 In addition to the two significant VFM risks identified, the auditors reviewed the findings from regulatory bodies including the CQC, Ofsted and HM Inspectorate of Probation, They identified two reports which rated the service provided by the Authority as poor or inadequate (HM Inspectorate of Probation and Ofsted).
- 3.8.6 Given these inspections, the auditors have provided a qualified ‘except for’ VFM conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources within children’s services and youth offending teams. This opinion is based on the sub criteria of sustainable resource deployment and working with partners and third parties not being adequate. The Auditors are satisfied that the Authority has put in place suitable arrangements to secure economy, efficiency and effectiveness in all other areas.
- 3.8.7 The Auditors have qualified their conclusion, noting that the Authority has made proper arrangements to work effectively with partners and third parties and deployed resources to achieve planned and sustainable outcomes for tax payers and local people except for in the areas relating to children’s services and youth offending teams where the Authority received negative reports from external inspection agencies relating to current performance in these areas.
- 3.8.8 Further details are provided in section four of the external audit report.
- 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 25 and 26.

- 3.10 The duty to appoint auditors to Local Authorities is a statutory function of the PSAA and 2015/16 is the first year that the audit was undertaken by KPMG LLP, who were appointed as Bromley's external auditor from 1st April 2015.
- 3.11 The auditors' report details on pages 17 and 36 the requirement for annual disclosure of all relationships between KPMG (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 Regulations 2015 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 14th September 2016. The audited Statement of Accounts, accompanied by the Annual Governance Statement, is attached at appendix 3.
- 3.13 The Council's Accounts and related records were made available for public inspection for 30 working days between 1st July 2016 and 11th August 2016. This is a requirement of the Regulations and must take place prior to the completion of the audit. During the 2015/16 Public Inspection period, no member of the public either contacted the auditor or raised an objection.
- 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 two of these objections are not yet concluded and PWC have provided the following updates:

1) Civil parking enforcement contract

PWC issued their final statement of reasons on 2nd September 2016. Having carefully considered the matters raised, PWC have concluded that they will take no further action. They have also considered whether it is appropriate to issue a Public Interest Report and concluded that this will not be required. However, they will include the following recommendations in their Annual Audit Letter:

- that the Authority continue to have due regard to the 2008 Statutory Guidance when tendering their parking enforcement contract; and
- that the Authority makes it clear what deliberations and considerations are made, including recording any reasons for departing from the requirements in the 2008 Statutory Guidance.

PWC believe making recommendations in their Annual Audit Letter is a more appropriate mechanism for them to use than a Public Interest Report in relation to these matters. The objector has 28 days to appeal against the final statement of reasons after which time, if no response is received, the objection will be considered closed.

2) Bailiff fees

PSAA have provided comments on the draft statement of reasons, primarily to ensure consistency with similar objections received for other local authorities which the PSAA are reviewing. Subject to resolving these points, PWC intended to issue their draft statement of reasons to the objector by the end of August 2016. At the time of writing, a further update is awaited.

3) London Councils

PWC issued the final statement of reasons on 23rd June 2016. PWC have concluded that they will take no further action as they do not consider that the amount of funding to London Councils (including TEC) recorded as expenditure in the Authority's 2013/14 Financial Statements is unlawful. They have also considered whether it is appropriate to issue a Public Interest Report and concluded that they should not do so. As no appeal was received within the permitted 28 day period, this objection is now closed.

3.15 The Council must publish its audited 2015/16 Accounts by 30th September 2016. 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 as set out in para. 3.13. 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 2015/16 (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 reduction of £12.5m in 2015/16 which was mainly due to a reduction to the earmarked general fund reserves. Unusable reserves reduced by £11m which was due to a reduction to the Capital Adjustment account of (£26m), offset by an increase to the Collection Fund Adjustment account of £5m, an increase to the Revaluation reserve of £3m, and minor increases to other unusable reserves of £7m.
- 3.18.5 The reduction of £26m on the Capital Adjustment Account was the result of a number of accounting entries relating to the depreciation and impairment (as well as the reversal of previous 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.
- 3.18.6 The net increase of £5m to the Collection Fund Adjustment Account was made up of a combination of LBB's element of the 2015/16 council tax surplus offset by LBB's element of the business rates deficit and the distribution of the council tax surplus and business rates deficit carried forward from prior years.
- 3.18.7 The increase of £3m on the Revaluation Reserve was made up of an increase of £23m in respect of revaluation gains in the year and a reduction of £20m 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 £24m.
- 3.19.2 Pensions costs, as defined by International Accounting Standard 19 (IAS19 – formerly FRS17) account for a deficit of £14m, mainly the result of the re-measurement of the net liability, net pensions interest costs and other charges.
- 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 reduction in the Council's general fund balance and earmarked reserves of £9m.
- 3.19.4 The Statement of Accounts reflects the 2015/16 outturn position for both capital and revenue, as reported to the Executive in June 2016, 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 2015/16 was reported to the Executive on 15th June 2016 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 2015/16 budget. Details of variations relating to the 2015/16 capital programme outturn were also reported to the Executive in June 2016 and there was no requirement to use General Fund balances to support the capital programme in 2015/16.

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 2016. Compared to the position in 2015, Property Plant & Equipment asset values reduced by £64m, mainly as a result of the de-recognition of assets disposed of during the year (£84m mostly relating to academy transfers), additions £8m, depreciation (£7m) and impairment losses/reversals £5m. In addition the Council's investment properties increased by £35m. The Council's assets are valued on different bases depending on the type of asset, as described in accounting policy 18.

3.20.2 Other significant variations between the 2015 and 2016 Balance Sheet dates include an increase of £106m of short term investments (1 year or less to maturity) offset by a £51m reduction in the value of long term investments (1 year or more to maturity), a £22m reduction in the value of investments classified as cash equivalents (instant or easy access), and an increase in short term borrowing of £24m.

3.20.3 The net Pension Fund liability has reduced by £3m, mainly the result of the re-measurement of scheme assets and liabilities. 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 £145m 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 2016 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 2015/16 the net assets of the Fund increased by £3m, due to contributions and other income exceeding the cost of benefits and other payments.

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 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the AGS “accompanies” the Statement of Accounts. Regulation 6 (2) 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 6th July 2016. The external auditors reviewed the AGS and confirmed that it complies with guidance issued by CIPFA/SOLACE in June 2007. Following publication of the Ofsted inspection the Auditors have requested that the following paragraph be included in the final AGS:

‘An Ofsted inspection of the above Service has recently been concluded. Their report published in late June 2016 stated that in five key areas the Service was inadequate. Bromley Council has acted swiftly to rectify concerns and an Improvement Plan has been drawn up awaiting Executive approval on the 14th September 2016’.

3.24.3 This Committee is requested to formally approve the revised AGS which was re-signed on 2nd September 2016.

4. FINANCIAL IMPLICATIONS

4.1 The final revenue and capital outturn for 2015/16 were reported to the Executive on 15th June 2016. Members are referred to these reports for detailed information on variations from approved budgets.

4.2 Details of external audit fees, including PWC and KPMG, are set out in note 35 of the financial statements and totalled £195k in 2015/16 (£192k in 2014/15). The 2015/16 fee includes costs of £15k (£14k in 2014/15) relating to the outstanding objections. The total cost incurred to date relating to these objections is £60k, with a further estimated cost of £3.5k to complete, subject to the objections being closed with no appeals being received.

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 2015/16. Accordingly, there is no impact on the level of reserves previously reported to the Executive in the Provisional Final Accounts report on 15th June 2016.

5. LEGAL IMPLICATIONS

5.1 The Accounts and Audit Regulations 2015 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 15th June 2016; Capital Programme Outturn – Executive 15th June 2016; Code of Practice on Local Authority Accounting in the United Kingdom 2015/16; Service Reporting Code of Practice 2015/16; The Accounts and Audit Regulations 2015; Final accounts supporting papers are held in the Technical and Control (Accountancy) Team.