

PART 1 - PUBLIC

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

Date: **12th September 2017**

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **AUDIT OF FINANCIAL STATEMENTS 2016/17**

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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 2016/17 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 2016/17 accounts.

2. **RECOMMENDATION(S)**

2.1 **The Committee is requested to:**

- (a) **Approve the Council's statutory accounts for 2016/17;**
- (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 auditor's report;**
- (d) **Note the auditor's conclusion on VFM;**
- (e) **Confirm agreement with the auditor's conclusion on their independence and objectivity;**
- (f) **Note the objections to the accounts as set out in para 3.13;**
- (g) **Authorise the Chairman of this Committee to sign the letter of representation for 2016/17 on behalf of the Council, see Appendix 2;**
- (h) **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: £136m 2016/17 budget (excluding GLA precept)
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 2,555 full-time equivalent posts (per 2016/17 Budget), which includes 911 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 Local Government Act 2002 and the Accounts and Audit Regulations 2015.
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2016/17 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 2016/17, 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 23rd June 2017. 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 A small number of non-material audit differences and 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 Auditor's VFM work followed the National Audit Office (NAO) guidance which is risk based and targets audit effort on the areas of greatest risk. The auditors are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on the following criteria:

- (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 three specific VFM risks – Financial Resilience, Findings from Regulatory Bodies and Overspends in Children's Services. In line with the risk-based approach set out in the plan, they have worked with officers throughout the year to discuss these VFM risks and their detailed findings are shown below:

- Financial resilience – reviewed the Council's financial position and financial management procedures taking account of the position reported in the Medium term Financial Strategy, the overall level of reserves and budget setting strategies. Considered forecast financial data over both the immediate and long term plans to evaluate the likelihood of the Council achieving the budgeted position. Reviewed the latest government spending policies and anticipated their effect on the Council's outturn position. No issues were identified.
- Findings from regulatory bodies – reviewed the Council's response to the Ofsted report including how the Council is working with the Commissioner to improve services. Considered how the approach to improving services is being managed across the Authority and the results of any recent relevant reports from Ofsted or similar bodies. In review of the Ofsted monitoring report dated 24th March 2017, it was noted that progress had been made to remediate issues identified in the June 2016 report but was not met on some areas within the local authority's action plan.
- Overspends in Children's Services – reviewed the financial position of Children's Services, including savings plans which have been put in place in response to the budget overspends. Considered whether the current spending is sustainable in the future, and modelled effects on the Medium Term Financial Strategy of further overspends within the service. No issues were identified.

3.8.4 Following the Ofsted inspection rating the Authority's Children's Services as 'inadequate' in June 2016 and the recent Ofsted monitoring visit report on 24th March 2017, the auditors have concluded that the Authority has made progress to obtain proper arrangements to secure economy, efficiency and effectiveness in its use of resources in these areas but have not fully remediated findings within this report. The auditors will therefore be issuing a qualified 'except for' VFM conclusion on this basis.

3.8.5 There are no other matters of any significance arising as a result of the audit work in these VFM risk areas.

3.9 The auditor's 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 16 and 17 and includes a follow up of three prior year recommendations. There are no new recommendations arising from the 2016/17 audit.

- 3.10 The duty to appoint auditors to Local Authorities is a statutory function of the PSAA and 2016/17 is the second year that the audit was undertaken by KPMG LLP, who was appointed as Bromley's external auditor from 1st April 2015 for 3 years. In August 2017 the PSAA wrote to the Council to formally consult on the appointment of Ernst & Young LLP as Bromley's external auditor for 5 years from 2018/19. The appointment will start on 1st April 2018.
- 3.11 The auditor's report details on pages 20 and 21 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 that there are no relationships between KPMG LLP and the London Borough of Bromley that they consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. They have also confirmed compliance with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity. This Committee is requested to consider the matters detailed in the auditor's 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 12th September 2017. 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 3rd July 2017 and 11th August 2017. This is a requirement of the Regulations and must take place prior to the completion of the audit. An elector in the Bromley borough has raised two objections to the 2016/17 accounts:
- Waste Management and Street Cleansing Services;
 - Trade Waste Collection Service.

As a result of these objections the audit cannot be formally concluded and an audit certificate issued. The auditor will provide a verbal update as to the status of these objections.

- 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. An update was provided in the Audit of Financial Statements 2015/16 report to this Committee on 14th September 2016. In summary, PWC have concluded that they would take no further action and did not consider it appropriate to issue a Public Interest Report. However, they did deem it necessary to include the following recommendations in their Annual Audit Letters:
- that the Authority should continue to have due regard to the Secretary of State for Transport's statutory guidance to local councils on the civil enforcement of parking contraventions when tendering its parking enforcement contract; and
 - that the Authority should make it clear what deliberations and considerations are made, including recording any reasons for departing from the requirements in the statutory guidance.

As no appeal was received from the objector within the permitted 28 day period these objections are now concluded. Certificates of completion for the years 2012/13, 2013/14 and 2014/15 were certified by PWC on 15th December 2016. KPMG certified the certificate of completion for the 2015/16 accounts on 16th December 2016.

- 3.15 The Council must publish its audited 2016/17 Accounts by 30th September 2017. 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. Changes to the arrangements for Public Inspection came into effect from the 2015/16 financial year.
- 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 2016/17 (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 £13.5m in 2016/17 which was mainly due to an increase in the Capital Grants Unapplied reserve of £18m offset by a reduction to the Capital Receipts reserve of (£5m). Unusable reserves reduced by £26m which was due to a reduction to the Capital Adjustment account of (£30m), offset by an increase to the Collection Fund Adjustment account of £3m, and minor net increases to other unusable reserves of £1m.
- 3.18.5 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.

3.18.6 The net increase of £3m to the Collection Fund Adjustment Account was made up of a combination of LBB's element of the 2016/17 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.

3.19 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 £13m.

3.19.2 Pensions costs, as defined by International Accounting Standard 19 (IAS19 – formerly FRS17) account for a deficit of £13m, mainly the result of the accounting treatment for current service costs, net 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 9 of the Accounts and section 3.18 above. These two statements should be considered together and the overall position is summarised on page 16 of the accounts. The result is an overall increase in the Council's general fund balance and earmarked reserves of £0.8m.

3.19.4 The Statement of Accounts reflects the 2016/17 outturn position for both capital and revenue, as reported to the Executive in June 2017, 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 2016/17 was reported to the Executive on 20th June 2017 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 2016/17 budget. Details of variations relating to the 2016/17 capital programme outturn were also reported to the Executive in June 2017 and there was no requirement to use General Fund balances to support the capital programme in 2016/17.

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 2017. Compared to the position in 2016, Property Plant & Equipment asset values reduced by £34m, mainly as a result of the de-recognition of assets disposed of during the year (£50m mostly relating to academy transfers), additions £14m, reclassifications £14m, depreciation (£7m) and impairment losses/reversals (£5m). In addition the Council's investment properties increased by £14m and Assets Held for Sale decreased by £8m, mainly as a result of 2 properties being declassified as they are no longer being actively marketed. 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 2016 and 2017 Balance Sheet dates include a reduction of £10m of short term investments (1 year or less to maturity) and a £15m reduction in the value of long term investments (1 year or more to maturity), offset by an increase of £7m in the value of investments classified as cash equivalents (instant or easy access), and a reduction in short term borrowing of £26m.

3.20.3 The net Pension Fund liability has reduced by £2m, 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 £143m 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 2017 in accordance with the requirements of IAS19. This is different from the Actuary's triennial valuation (most recently as at 31st March 2016) 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 12 year period from 1st April 2017.

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 2016/17 the net assets of the Fund increased by £165m, mainly as a result of the excellent investment performance (net return of £200m), partly offset by the group transfers out of Bromley College and GS Plus (£32m) and other net cash outflows (£3m).

3.23.3 The Fund actuary values the fund every three years and the most recent full valuation was carried out during 2016/17 on the position at 31st March 2016. The actuary found a solvency level of 91%, an increase of 9% compared to the position at the 31st March 2013. The next full valuation (as at 31st March 2019) will be carried out by the actuary during 2019/20 and this will determine a revised Fund position and will set employer contribution rates for the three years 2020/21, 2021/22 and 2022/23.

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 2016 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 (2) of the Regulations requires that the AGS should be considered and approved by a Committee or Full Council. The statement must then be included with the Statement of Accounts.

3.24.2 The draft AGS was approved by Audit Sub Committee on 21st June 2017. 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 2016/17 were reported to the Executive on 20th June 2017. 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 36 of the financial statements and totalled £180k in 2016/17 (£195k in 2015/16). The 2016/17 fee includes costs of £20k (£15k in 2015/16) relating to the 2012/13 and 2013/14 objections. The total cost incurred on these objections was £75k.
- 4.3 This report refers to matters reflected in the auditor's report. There are no adjustments to the accounts that have an impact on the Council's revenue outturn position and general fund balance for 2016/17. Accordingly, there is no impact on the level of reserves previously reported to the Executive in the Provisional Final Accounts report on 20th June 2017.

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 20 th June 2017; Capital Programme Outturn – Executive 20 th June 2017; Code of Practice on Local Authority Accounting in the United Kingdom 2016/17; Service Reporting Code of Practice 2016/17; The Accounts and Audit Regulations 2015; Final accounts supporting papers are held in the Technical and Control (Accountancy) Team.