

**Decision Maker:** GENERAL PURPOSES AND LICENSING COMMITTEE

**Date:** Wednesday 25 July 2018

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

**Title:** AUDIT OF FINANCIAL STATEMENTS 2017/18

**Contact Officer:** Tracey Pearson, Chief Accountant  
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**Chief Officer:** Director of Finance

**Ward:** Borough Wide

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1. Reason for report

1.1 This report sets out the Council's 2017/18 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 2017/18 accounts.

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2. **RECOMMENDATION(S)**

2.1 **The Committee is requested to:**

- (a) **Approve the Council's statutory accounts for 2017/18;**
- (b) **In accordance with the requirements of the Accounts and Audit Regulations 2015, authorise the Chairman of this Committee to 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 Value for Money (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 paras 3.14 to 3.16;**
- (g) **Authorise the Chairman of this Committee to sign the letter of representation for 2017/18 on behalf of the Council, see Appendix 2;**
- (h) **Approve the Annual Governance Statement which accompanies the statutory statement of accounts.**

## Impact on Vulnerable Adults and Children

1. Summary of Impact: None arising directly from this report
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## Corporate Policy

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

1. Cost of proposal: Not Applicable
  2. Ongoing costs: Not Applicable
  3. Budget head/performance centre: Council wide
  4. Total current budget for this head: £143m 2017/18 budget (excluding GLA precept)
  5. Source of funding: N/A
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## Personnel

1. Number of staff (current and additional): 2,327 fte posts (per 2017/18 Budget) which includes 701 for budgets delegated 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: Not Applicable
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## Procurement

1. Summary of Procurement Implications: None arising directly from this report
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2017/18 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 our services.
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
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 31<sup>st</sup> July. 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 31<sup>st</sup> May 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 2017/18, 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 30<sup>th</sup> May 2018. 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 identified one material misstatement requiring £1,361k to be reclassified from Assets Held for Sale into Surplus Assets as the property is not expected to be sold within the next 12 months. There are no non-trivial audit differences which remain uncorrected on either the Pension Fund or the financial statements.
- 3.6 A small number of 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 (VFM) 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. In their external audit plan, the auditors identified two specific VFM significant risks – Delivery of Budgets and Findings from Regulatory Bodies. In line with the risk-based approach set out in the plan, they have reviewed these risks and the detailed audit response and findings are set out in section three of the external audit report.

- 3.8.3 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 criteria of informed decision making, sustainable resource deployment and working with partners and third parties 'except for' in the area of Children's Services.
- 3.8.4 Following the Ofsted inspection in June 2016 rating the Authority's Children's Services as 'inadequate' and recent Ofsted monitoring visit reports 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 these reports. As in 2015/16 and 2016/17, the auditors will again 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 this risk based VFM audit work.
- 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 21 to 23 and includes a follow up of three prior year recommendations. There is one new recommendation arising from the 2017/18 audit.
- 3.10 2017/18 is the third and final year for the audit to be undertaken by KPMG LLP who were appointed as Bromley's external auditors from 1<sup>st</sup> April 2015. For the audit of accounts from 2018/19, Public Sector Audit Appointments (PSAA) is responsible for appointing an auditor for the five-year period to 2022/23 to relevant authorities that have chosen to opt into its national auditor appointment arrangements. In August 2017 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 was confirmed in December 2017 and started on 1<sup>st</sup> April 2018.
- 3.11 The auditor's report details on pages 27 to 30 the requirement for annual disclosure of all relationships between KPMG and the Authority that may reasonably be thought to bear on their independence and objectivity. In conclusion they have confirmed that, in their professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired. This Committee is requested to consider the matters detailed in the external audit 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 25<sup>th</sup> July 2018. 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 1<sup>st</sup> June 2018 and 12<sup>th</sup> July 2018. This is a requirement of the Regulations and must take place prior to the completion of the audit.
- 3.14 An elector in the Bromley borough has raised an objection to the 2017/18 accounts. It is difficult to ascertain from the lengthy and detailed document (44 pages) sent to the external auditor what, precisely, the objection relates to. There are a range of matters set out in the document which primarily relate to waste management and waste collection services but also include grounds maintenance contract, street cleansing contract and civic centre empty offices. The objection was submitted on 8<sup>th</sup> July and the auditor will contact the authority in due course outlining the approach that will be taken.

- 3.15 Members will be aware of the objections made to the 2016/17 accounts relating to the Council's waste collection contract and the on-going management of the waste management and street cleansing contracts. At the time of writing these objections have not yet been concluded.
- 3.16 The objections to the 2016/17 and 2017/18 accounts are from the same elector. 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.
- 3.17 This is the first year of the new accelerated accounts closure timetable implemented under the Accounts and Audit Regulations 2015. The pre-audited accounts must be signed and certified by the Responsible Financial Officer by 31<sup>st</sup> May (previously 30<sup>th</sup> June) and the audited accounts must be published by 31<sup>st</sup> July 2018 (previously 30<sup>th</sup> September).
- 3.18 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 2017/18 (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.
- 3.19 The Statement of Accounts reflects the 2017/18 outturn position for both capital and revenue in the required statutory format. The overall outturn position for 2017/18 was reported to the Executive on 21<sup>st</sup> May 2018 with more detailed information being reported to individual PDS Committees. This report identified the key cost variations compared with the 2017/18 budget. Details of variations relating to the 2017/18 capital programme outturn were also reported to the Executive in May 2018 and there was no requirement to use General Fund balances to support the capital programme.
- 3.20 The sections that follow provide a brief commentary on the main points to note in the Accounts.
- 3.21 The Comprehensive Income and Expenditure Statement (CI&E Statement)
- 3.21.1 This statement shows 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 surplus for the year of £77m. This is mainly due to the accounting treatment for pension costs, as defined by International Accounting Standard 19 (IAS19 – formerly FRS17) which accounts for a surplus of £65m.
- 3.21.2 The surplus reflected on the CI&E Statement is offset by the movement shown in the MIRS, as detailed within note 8 of the Accounts and section 3.22 below. 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 £23.5m.
- 3.22 Movement in Reserves Statement (MIRS)
- 3.22.1 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).

3.22.2 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.

3.22.3 Usable reserves showed an overall increase of £21.3m in 2017/18 which was due to an increase in earmarked reserves of £23.5m offset by a net reduction in capital grants unapplied and capital receipts of £2.2m.

3.22.4 Unusable reserves increased by £55.7m which was mainly due to the Pension Reserve (£74.9m) offset by a reduction to the Capital Adjustment Account of £23.2m and other net variations of (£4.0m). The movement on the Pension Reserve was due to a reduction in the net liability from £142.9m to £68.0m mainly the result of actuarial gains on the re-measurement of pension assets and liabilities. The reduction to the Capital Adjustment Account was the result of a number of accounting entries relating to 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.

### 3.23 Balance Sheet

3.23.1 The balance sheet provides a snapshot of the Council's financial position, its assets and liabilities, at 31<sup>st</sup> March 2018. Compared to the position in 2017, Property Plant & Equipment asset values reduced by £20m, mainly as a result of the de-recognition of assets disposed of during the year (£45m mostly relating to academy transfers), additions £15m, depreciation (£7m) and net revaluation increases £17m. The Council's assets are valued on different bases depending on the type of asset, as described in accounting policy 18.

3.23.2 Other significant variations between the 2017 and 2018 Balance Sheet dates include an increase of £27m in the value of long term investments (1 year or more to maturity) offset by a reduction of £28m in short term investments (1 year or less to maturity) whilst cash and cash equivalents (instant or easy access) has increased by £19m.

3.23.3 The net Pension Fund liability has reduced by £75m, 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 £68m 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 31<sup>st</sup> March 2018 in accordance with the requirements of IAS19. This is different from the Actuary's triennial valuation (most recently as at 31<sup>st</sup> 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 1<sup>st</sup> April 2017.

### 3.24 Cash Flow Statement

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

### 3.25 Notes to the Main Statements

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

### 3.26 Pension Fund Accounts

3.26.1 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.

3.26.2 During 2017/18 the net assets of the Fund increased by £54m, mainly as a result of investment performance (net return of £62m) offset by other net cash outflows of £8m.

3.26.3 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 31<sup>st</sup> March 2016. The actuary found a solvency level of 91%, an increase of 9% compared to the position at the 31<sup>st</sup> March 2013. The next full valuation (as at 31<sup>st</sup> 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.

3.26.4 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.

### 3.27 Annual Governance Statement (AGS)

3.27.1 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.

3.27.2 The draft AGS was approved by Audit Sub Committee on 24<sup>th</sup> May 2018. 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 2017/18 were reported to the Executive on 21<sup>st</sup> May 2018. Members are referred to these reports for detailed information on variations from approved budgets.

4.2 Details of external audit fees are set out in note 36 of the financial statements and totalled £156k in 2017/18 (£180k in 2016/17). The 2016/17 fee includes costs of £20k relating to the 2012/13 and 2013/14 objections. The total cost incurred on these objections was £75k. It is not yet possible to estimate the costs relating to objections to the 2016/17 and 2017/18 accounts.

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 2017/18. Accordingly, there is no impact on the level of reserves previously reported to the Executive in the Provisional Final Accounts report on 21<sup>st</sup> May 2018.

## 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 31<sup>st</sup> May 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 31<sup>st</sup> July.

<b>Non-Applicable Sections:</b>	Impact on Vulnerable Adults and Children Policy, Personnel, Procurement Implications
Background Documents: (Access via Contact Officer)	Provisional Final Accounts – Executive 21 <sup>st</sup> May 2018; Capital Programme Outturn – Executive 21 <sup>st</sup> May 2018; Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; Service Reporting Code of Practice 2017/18; The Accounts and Audit Regulations 2015; Final accounts supporting papers are held by the Technical and Control (Accountancy) Team.