

Audit Committee: 19th July 2017

DRAFT 2016/17 STATEMENT OF ACCOUNTS

1. Purpose of Report

- 1.1 This report presents the 2016/17 Statement of Accounts, the Council's seventh set of accounts prepared in accordance with International Financial Reporting Standards.

2. Recommendation

- 2.1 It is recommended that:

a) The Audit Committee considers and comments on the work that has taken place to prepare the Authority's draft 2016/17 Statement of Accounts.

3. Introduction / Background

- 3.1 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the 2016/17 Statement of Accounts. The main requirement is that the Council should lodge a Code of Practice on Local Authority Accounting (the Code) compliant set of accounts with the External Auditor by no later than 30th June 2017.
- 3.2 Members of the Committee will be aware that the external auditors for 2013/14 through to 2017/18 are KPMG.
- 3.3 Members of the Committee should note that the Council met all of its statutory obligations with the draft accounts submitted to KPMG on the afternoon of the 30th June 2017. It should also be noted that the Accounts and Audit Regulations 2015 no longer require those charged with governance (the Council) to approve the draft accounts prior to the 30th June 2017 deadline. This is primarily to allow the Council's officers additional time to prepare the accounts under the more complex and time consuming International Financial Reporting Standards (IFRS) and to place public bodies on a similar reporting footing with the private sector.
- 3.4 It should be noted however that the Accounts and Audit Regulations 2015 determine that from the 2017/18 financial year, the statutory obligation for submitting a set of draft accounts to audit will be brought forward by one month (31st May). Over the past 3 years, Council finance staff have been working towards this deadline by improving and automating processes. 2016/17 marks the end of this series of 'dry runs' which resulted in a draft set of accounts being collated, produced and checked by 31st May 2017.
- 3.5 As in 2016, the Audit Committee and the full Council will receive the External Auditor's report prior to the 30th September 2017 statutory deadline.

4. Current Position

- 4.1 A set of the Council's 2016/17 draft Statement of Accounts for 2016/17 are attached at Appendix 1. This document presents the Authority's financial statements in the format required by CIPFA's Code of Practice on Local Authority Accounting 2016/17 (the 'Code'), the Accounts and Audit Regulations 2015 and the Audit Commission Act 1998.
- 4.2 As previously mentioned, the format of the information is prescribed and based on International Financial Reporting Standards as interpreted by the 'Code' which allows, in the main, comparison to other local authorities and other bodies. Separate revenue and capital final accounts reports detailing the 2016/17 outturn for each Directorate and the overall implications of those positions were submitted to the Council's Cabinet for approval on the 14th June 2017. These reports can also be made available to members of the Audit Committee if required.
- 4.3 The annual audit of the accounts commenced in early July 2017. On conclusion of the audit, the External Auditor will issue a formal report and opinion on the accounts. No major amendments to the accounts are anticipated, however, if any significant amendments are required then these will be presented to the Audit Committee and the full Council in a separate report at a later date.

5. Options

- 5.1 The Council has a statutory obligation to submit the draft 2016/17 Statement of Accounts to the External Auditor by 30th June 2017. Failure to do so could result in an audit qualification and consequential reputational damage. This requirement was duly met.

6. Consultations

- 6.1 The Statement of Accounts have been prepared in conjunction with all Executive Directors and Financial Services support staff. External Audit has been kept informed of progress throughout the accounts closure process.

7. Local Area Implications / Compatibility with European Convention on Human Rights / Reduction of Crime and Disorder / Risk Assessment

- 7.1 No direct implications.

8. Proposal

- 8.1 That the Service Director Finance and the Council's s151 officer submits the draft 2016/17 Statement of Accounts (Appendix 1) to the Audit Committee meeting of the 19th July 2017 for consideration and comment.

9. Financial Implications

- 9.1 The Authority's statutory draft financial statements for the financial year 2016/17 are attached at Appendix 1 to this report. For the benefit of Members, this includes on pages 6 to 32, a Narrative Report (formerly the Explanatory Foreword) which was a new requirement introduced for 2015/16. This report

introduces the Council and what the purpose is, together with the corporate vision and values.

- 9.2 Furthermore, the requirements state that key performance of the Council must also be presented, from both an internal and external perspective, covering a range of themes such as performance management, treasury management, risk management and the future economic outlook. Though not a formal requirement, the narrative report also explains the relationship between the Authority's management accounts and the financial statements contained within the Statement of Accounts.
- 9.3 The Narrative Report also provides a brief description of the purpose of the main statements within the accounts, including the Movement in Reserves Statement, the Comprehensive Income & Expenditure Statement and the Balance Sheet.
- 9.4 In considering the draft statements, the Audit Committee's attention is drawn to the issues outlined in paragraphs 9.5 to 9.17 below.
- 9.5 The legislative requirements stemming from the Accounts & Audit Regulations 2011 have had the impact of significantly reducing the timeframe allowed for the accounts closure process in recent years. Added to the reductions in staffing and the increasing complexity brought about by International Financial Reporting Standards, this has created workload issues. However all such requirements were still met in full and in overall terms, the Council considers that the overall quality of working papers and files for audit have improved.
- 9.6 Looking forward, the Accounts and Audit (England) Regulations 2015, which have been in effect since the 2015/16 financial year, resulted in key changes such as inclusion of the Categorisation of Authorities to determine the scope of the statutory audit and, more of an impact to the Authority, introducing an earlier timetable for the closure of accounts.
- 9.7 In preparation for this, the Authority has used the past four closedowns to implement revised processes such as increased automation as well as a more rigorous approach to materiality. Specific transitional periods are applied within the 2015 Regulations in respect of this to defer the effective start date to the closedown of 2017/18 accounts.
- 9.8 During the 2016/17 closedown process, which represented the final 'dry run' in regards to earlier closedown, the draft statement of accounts was produced and thoroughly checked by finance staff, in advance of 31st May 2017.
- 9.9 The Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 'Code') prescribes the accounting treatment and disclosures for all transactions of a local authority.
- 9.10 The 'Code' sets out the accounting concepts and principles that underpin the Statement of Accounts with the overriding requirement that the accounts provide a true and fair view of the financial position and transactions of the Authority.
- 9.11 The 'Code' is updated each year as accounting practice evolves. Members of the Committee will recall that recent changes have included the introduction of International Financial Reporting Standards and the inclusion of Heritage Assets to the Council's Balance Sheet for the first time in 2012.

9.12 The only significant change to the 'Code' for 2016/17 relates to some new presentational requirements, including a number of new notes around the links between operational expenditure / reserves and the Council and the information presented in the financial statements. The new requirements are as follows:

- The introduction of a new statement / note called the 'Expenditure and Funding Analysis' which relates to improving the understanding of the links between what is presented in the management accounts, the respective adjustments made in line with the 'Code' and the financial accounts. This note can be found on page 34 of Appendix 1 with additional information around the aforementioned adjustments in Note 6 at page 61 of Appendix 1.
- The removal of the requirement to report on a SERCOP (Service Reporting Code of Practice) basis in the net cost of services in the Comprehensive Income & Expenditure Statement (on page 36 of Appendix 1), moving towards reporting on how the Authority is structured. For BMBC, this means the directorates in which it is structured e.g. People, Place, Communities, Public Health, and Core Services etc. As per the point above, this is an attempt to help the user's understanding of the accounts.
- The removal of the segmental reporting note which has been replaced by the two amendments above as well as a new note called the 'Expenditure & Income Analysed by Nature' note (page 68 in Appendix 1) which fundamentally breaks down the Comprehensive Income & Expenditure Statement over the type of income / expenditure.

9.13 No other significant accounting changes are contained within the 2016/17 Code that impact on the Authority and therefore does not affect the Authority's financial position both in terms of net worth on the balance sheet and through the surplus / deficit reported through its Comprehensive Income & Expenditure Statement (CI&ES).

10. Employee Implications

10.1 No direct implications.

11. Glossary

11.1 CIPFA - Chartered Institute of Public Finance and Accountancy

12. List of Appendices

12.1 Appendix 1 - Draft Statement of Accounts 2016/17.

13. Background Papers

13.1 Various closedown files, working papers and external audit schedules are available for inspection within the Finance Business Unit.

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