

Audit Committee: 5<sup>th</sup> June 2019

**DRAFT 2018/19 STATEMENT OF ACCOUNTS**

1. Purpose of Report

1.1 This report presents the 2018/19 Statement of Accounts, the Council's ninth set of accounts prepared in accordance with International Financial Reporting Standards.

2. Recommendation

2.1 It is recommended that:

- **The Audit Committee considers and comments on the work that has taken place to prepare the Authority's draft 2018/19 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 2018/19 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 31<sup>st</sup> May 2019.

3.2 The deadline of 31<sup>st</sup> May is the second year of this deadline being one month earlier than in previous years, as stipulated in the above legislation.

3.3 Members of the Committee will be aware that the External Auditors for 2018/19 are Grant Thornton.

3.4 Members of the Committee should note that the Council expects to meet all of its statutory obligations with the draft accounts scheduled to be submitted to Grant Thornton on the 31<sup>st</sup> May 2019. It should also be noted that the Accounts and Audit Regulations 2015 do not require those charged with governance (the Council) to approve the draft accounts prior to the 31<sup>st</sup> May 2019 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.

3.5 To assist Members of the Committee, attached at Appendix 2 is a set of explanatory notes and a summary of the core financial statements contained within the statement of accounts. The purpose of this document is to inform Members of the intrinsic links between the management accounts submitted to Cabinet and the financial accounts presented today, outlining the key differences between the two sets of accounts, one being produced on a funding basis (Management Accounts) i.e. what can be legally charged to the Council Tax payer, and the other being produced on an accounting basis (Financial Accounts) i.e. as required by the statutory Code of Practice.

3.6 To further assist Members of the Committee, attached at Appendix 3 is a CIPFA publication “Understanding Local Authority Financial Statements”. This publication is designed to give an overall analysis of what the main statements within the Accounts mean, from the perspective of Members.

3.6 Members should also note that our External Auditors have to complete their audit and issue their report to Audit Committee and full Council by no later than 31<sup>st</sup> July 2019.

#### 4. Current Position

4.1 A set of the Council’s 2018/19 draft Statement of Accounts 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 2018/19 (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 2018/19 outturn for each Directorate and the overall implications of those positions are due to be submitted to the Council’s Cabinet for approval on the 24<sup>th</sup> June 2019. These reports can also be made available to members of the Audit Committee if required.

4.3 The annual audit of the accounts is due to commence in early June 2019. 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 2018/19 Statement of Accounts to the External Auditor by 31<sup>st</sup> May 2019. 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 (the Council's S151 Officer) submits the draft 2018/19 Statement of Accounts (Appendix 1) to the Audit Committee meeting of the 5<sup>th</sup> June 2019 for consideration and comment.

## 9. Financial Implications

- 9.1 The Authority's statutory draft financial statements for the financial year 2018/19 are attached at Appendix 1 to this report. For the benefit of Members, this includes on pages 6 to 35, a Narrative Report which introduces the Council and contextualises the financial statements in the economic environment that the Council operates in. It outlines the Council's corporate objectives 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 9.10 below.

- 9.5 The Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 'Code') prescribes the accounting treatment and disclosures for all transactions of a local authority. The 'Code' is refreshed annually as accounting standards evolve.

- 9.7 The 'Code' also 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.

- 9.8 In respect of the 2018/19 'Code', there have been two key changes that have impacted the Authority's statement of accounts, both of which potentially affect the opening financial position of the Council i.e. 1<sup>st</sup> April 2018.

- 9.9 The first change to the Code relates to the accounting standard IFRS 9 – Financial instruments, which looks specifically at the Council's investments that it holds. There are two key strands to the change in accounting policy:

- Firstly - there has been a change to how the Council's investments are categorised and subsequently measured at the year end. Depending on the type of investment, measurement is either a) held at cost i.e. what the Council paid for it, b) fair value through profit and loss i.e. fair value is what a third party would be willing to pay for the instrument – with the difference recognised against the General Fund or c) fair value through other income

and expenditure i.e. fair value as above, but no impact on general fund, with the gain or loss held in an unusable reserve.

- **BMBC Impact:** Of the Council's investments, the majority did not change category, but a number of investments did move into fair value through other income and expenditure – resulting in a reduction in value of £263k. Though there was no impact on the General Fund balance, it still results in a reduction in the Council's net worth.
- The second part relates to the methodology around providing for credit losses on investments – using the expected credit loss model, in a similar way the Council provides for a provision for bad debts on its other debtors. Previously, a loss would have been recognised when the loss was certain / known. The new requirement is to account for the expected loss of such investments at the year end, based on historical evidence of default and overall credit rating.
- **BMBC Impact:** A large proportion of the Council's investment balance was held in good quality institutions; therefore the impact was deemed not material. For the loans that the Council has given to third party organisations, these were assessed against the criteria, and an expected credit loss as at the 31<sup>st</sup> March was calculated at £0.326M – a negative impact on the Council's general fund and net worth.

9.10 The second change to the Code relates to the accounting standard IFRS 15 – Revenue from Contracts with Customers, which looks specifically at the Council's fees and charges that it receives. The standard requires that revenue income associated with contractual arrangements be aligned to performance obligations within that contract. Revenue must only be recognised upon satisfying the individual performance obligations. The Code requires this to be applied to opening balances with potential restatement of those balances required.

- **BMBC Impact:** An in-depth analysis has been undertaken on the Council's fees and charges to identify where contracts exist in respect of those revenue streams. There are no material contractual income streams that overlap different financial years. Therefore, there is no restatement to opening balances as a result of this transition.

## 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 2018/19  
Appendix 2 – Summary Accounts & Explanatory Notes 2018/19  
Appendix 3 – CIPFA’s Understanding Local Government Financial Statements

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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