

For publication

Audit Report on the 2015/16 Statement of Accounts

Meeting: Standards & Audit Committee

Date: 21st September 2016

Report by: Acting Chief Finance Officer

For publication

1.0 Purpose of report

1.1 To approve the Statement of Accounts for 2015/16.

1.2 To approve the 'Letter of Representation'.

1.3 To receive the external auditor's 'Report to those Charged with Governance'.

2.0 Background

2.1 The Accounts and Audit Regulations require that:

- No later than 30th June following the financial year end the responsible financial officer must certify the annual accounts as presenting a true and fair view of the financial position of the authority at 31st March; and
- No later than 30th September the annual accounts and audit opinion must be approved by members and published.

The Standards and Audit Committee is the nominated body for approving the accounts. The audited Statement of Accounts (SoA) is included as **Annexe 1**.

- 2.2 The Cabinet considered the overall outturn report for 2015/16 on the 14th June and a copy of that report is included as **Annexe 2** for information. The Cabinet report provides more of a commentary on the outturn, variances from budgets, level of reserves, etc. The General Fund surplus per this report is £448k which reconciles to the breakeven position in the Statement of Accounts (page 23) as follows:

	<u>£'000</u>
Surplus in the year per 14th June report	448
Transfers to earmarked reserves	(448)
Net surplus/(deficit) in the year per SoA	-
General Fund Balance at the end of the year (Movement in Reserves statement page 23)	1,500

The main reasons for the surplus are set out in Appendix B of the 14th June Cabinet report.

- 2.3 The Council's auditors are required to obtain written representations from management in respect of various matters relating to the accounts in the form of a 'Letter of Representation'.
- 2.4 Each year the appointed auditor is required to "communicate audit matters to those charged with Governance", namely this committee. The Auditor will present the 'Report to those Charged with Governance' (**Annexe 3**). The report gives details of any adjustments that had to be made to the accounts following the audit and also includes the audit opinion and value for money conclusion.
- 3.0 **Audited Statement of Accounts 2015/16**
- 3.1 Following the audit of the accounts a small number of presentational adjustments have been made to the original draft of the Statement of Accounts. These changes are not considered

by the Auditor to be material and they do not impact on the previously reported level of the Council's balances at the end of March 2016.

- 3.2 There were no significant changes introduced to the requirements for presentation of the Statement of Accounts in 2015/16.

The key statements are explained below.

- 3.3 **Movement in Reserves Statement** (SoA page 23) – presents the financial resources available to the authority. The statement differentiates between 'usable' and 'unusable' reserves.

- A **usable reserve** is one that the authority can control and is often held for a specific purpose. Further details of the Usable Reserves of £33.9m at 31st March 2016 (page 23) are provided in Note 8 (page 50) and Note 41 (page 83). For example, the main elements of the Earmarked General Fund Reserves total of £10.4m include £1.6m capital reserves, £0.3m in the Invest-to-Save Reserve, £1.0m in the Service Improvement Reserve, £1.0m in the Budget Risk Reserve and £1.4m in the Business Rates Reserve.
- **Unusable reserves** generally arise from statutory accounting adjustments and cannot be used to support service delivery. Details of the total unusable reserves of £203.8m at 31st March 2016 are shown in Note 42 (page 84). For example, the Capital Adjustment Account (£247.8m) is a statutory adjustment account reflecting the replacement of depreciation charges with the statutory provision for the repayment of debt and capital financing provisions (see Note 44). The Pension Reserve (negative £61.0m, Notes 42 and 46) reflects the replacement of the estimated cost of pension benefits earned by employees in the year with the employer's contributions payable into the Pension Fund for the year. The Accumulated Absences Account reflects an adjustment to remove these charges from the service account reserves.

- 3.4 **Comprehensive Income and Expenditure Statement** (SoA page 25) reflects the economic reality or substance of transactions incurred in the delivery of services. The statement therefore includes the estimated cost of pension benefits earned and depreciation charges on assets; both charges which are

removed and replaced by statutory charges in the Movements in Reserves Statement as described above. For consistency and comparability between authorities the service analysis is based on a standard form.

3.5 **Balance Sheet** (SoA page 27) – the balance sheet shows the authority's financial position as at the balance sheet date, 31st March. The balance sheet is comprised of two main parts:

- The top part shows the '**Net Assets**' – i.e. the assets that the authority would have control of after settling its liabilities. Long term assets/liabilities are those which have a life beyond the next 12 months e.g. property, long term loans and investments. Current assets/liabilities are likely to be consumed/settled within the next 12 months e.g. stock, debtors, creditors, etc.
 - ⇒ Long term assets, most at current value, are included at £422.5m. The amount by which the current value has increased over the original cost of the asset since 1st April 2007 is reflected in the 'Revaluation Reserve' (Note 43).
 - ⇒ Current assets and liabilities represent short-term amounts to be consumed, paid or received in the short-term.
 - ⇒ Long term borrowing £133.5m represents the money borrowed to finance capital expenditure over many years.
 - ⇒ Long Term Provisions £3.6m represents amounts set aside to meet future known liabilities. Independent actuarial reviews of two provisions (i.e. Transport Company Pensions £0.9m and Self-insurance Fund £0.8m) have confirmed that the balances are adequate. Long-term provisions also includes an amount of £1.8m for the Council's share of successful rating appeals for Non Domestic Rates.
 - ⇒ Pensions - shows an estimated liability of £61.0m, which will have to be addressed in future re-assessments of employer contributions and as part of the current national review of the Local Government Pensions scheme.

- The lower section shows the '**Total Reserves**' which represent the value of the 'Net assets'. Reserves are split between 'usable' and 'unusable' as described above in para. 3.3.
 - ⇒ Usable Reserves £33.9m – includes capital reserves (£1.6m), earmarked revenue reserves (£8.8m), General Fund balance (£1.5m) and the HRA balance (£20.5m).

⇒ Unusable Reserves (£203.8m) – these are statutory accounting adjustment accounts which are not available to the authority to finance services. Note 42 provides a breakdown and shows that the Revaluation Reserve increased by £3.8m, the Capital Adjustment Account increased by £8.1m and the negative Pensions Reserve reduced by £13.9m.

3.6 **Cash Flow Statement** (SoA page 28) - summarises the inflows and outflows of cash on all the Council's activities.

3.7 **Housing Revenue Account** (SoA page 98) - a 'ring-fenced' account which records the income and expenditure relating to the provision of council housing. There is a statutory requirement for this account to balance. The Council has a policy of maintaining a minimum balance of £3.0m on this account. The account produced a surplus of £2.441m in the year which when added to the balance brought forward gives a balance carried forward of £20.5m. A healthy working balance is required to help finance pressures identified in the medium term business plan, notably the requirement to improve and maintain dwellings to the 'Decent Homes Standard'. Other key points to note include:

- ◆ The loss of rent due to vacant properties at 2.12% (Note 1);
- ◆ The number of dwellings fell to 9,487 by the end of the year, 68 properties were sold under the Right to Buy Scheme (Note 2);
- ◆ Rent arrears increased to £2.6m but a provision to cover the possible eventual write-off of £1.2m or 47% of these debts has been made.

3.8 **Collection Fund** (SoA page 104) - this account shows the amounts due from local council taxpayers and how these are distributed to the authorities in the area - £43.2m is collected but only £4.4m (10.37%) is for the Borough Council's services. The account also shows the amounts due from business ratepayers (£36.9m) and how this amount is distributed to other authorities in the area and central government – with only £14.7m (40.0%) for the Borough Council to retain to fund services.

3.9 **Disclosure Notes**

Contingent Liabilities – A contingent liability is generally a possible obligation that arises from past events but where the existence of the obligation is dependent (contingent) on future events not within the control of the authority. A contingent liability is not recognised in the accounting statements but is disclosed by way of a note to the accounts. Note 61 (page 96) gives details of all contingent liabilities.

3.10 **Annual Governance Statement** – as considered by this Committee on 22nd June 2016 is included in the SoA (pages 16-21).

4.0 **Management Letter of Representation**

4.1 The Management Letter of Representation must be prepared by the Council's Responsible Financial Officer after having made appropriate enquiries of other officers. This Committee, 'as those charged with governance', must acknowledge their collective responsibility for the compilation of the financial statements and consider the adequacy of the letter.

4.2 A copy of the letter is included as **Annexe 4** and provides representations in respect of fraud, compliance with laws and regulations, contingent liabilities, related party disclosures, and post balance sheet events.

5.0 **Report to Those Charged With Governance**

5.1 The Auditor's report is included as **Annexe 3**. The Auditor will present the report and answer any questions.

6.0 **Recommendations**

6.1 That the Committee approves the Statement of Accounts for 2015/16.

6.2 That the Committee approves the Management Letter of Representation.

6.3 That the Committee receives the Report to those Charged with Governance.

7.0 Reason for Recommendations

7.1 To comply with statutory requirements

H FOX ACTING CHIEF FINANCE OFFICER

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
Helen Fox	01246 345452/helen.fox@chesterfield.gov.uk
Background documents None	
Appendices to the report	
Annexe 1	Statement of Accounts 2015/16
Annexe 2	Cabinet Outturn report 2015/16
Annexe 3	Final ISA 260 report 2015/16
Annexe 4	Management letter of representation 2015/16