

<b>AUDIT PANEL</b>			
<b>Report Title</b>	<b>Draft Pre-Audit Statement of Accounts and Annual Governance Statement</b>		
<b>Key Decision</b>	<b>No</b>		<b>Item No.</b>
<b>Ward</b>	<b>All</b>		
<b>Contributors</b>	<b>Executive Director for Resources and Regeneration</b>		
<b>Class</b>	<b>Part 1</b>	<b>Date: 8<sup>th</sup> June 2016</b>	

## **REASON FOR LATENESS AND URGENCY**

This report was not available for the original despatch as the meeting of the Audit Panel had been brought forward by a week from the timetable set at the start of the municipal year. Furthermore, officers are working to a much shorter timetable than in recent years in preparation of the formal changes which will come into effect for the 2017/18 accounts. The report is urgent and cannot wait until the next meeting of the Audit Panel on 13<sup>th</sup> September 2016 as it will be at this meeting that the final accounts and comments from the external auditors are considered before being endorsed at the meeting of full Council on 21<sup>st</sup> September 2016.

Where a report is received less than five clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972, Section 100(b)(4), the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

### **1 SUMMARY AND PURPOSE**

- 1.1 To review and comment on the pre-audit Statement of Accounts for 2015/16 and the draft Annual Governance Statement.

### **2 EXECUTIVE SUMMARY**

- 2.1 The Council is not required by law to obtain elected Members' approval of its pre-audit accounts. However, given the importance of the document, and its complexity, officers are of the view that it is appropriate to present them to the Audit Panel.
- 2.2 Accordingly, the pre-audit Statement of Accounts for 2015/16 is attached as Appendix 1 to this report and the draft Annual Governance Statement (AGS) is attached at Appendix 2. Members should note that the pre-audit Pension Fund accounts will follow on the supplementary agenda despatch for this meeting, but will be considered by Audit Panel members at the same time as the Council's main accounts.

- 2.3 The summary of net expenditure against budgets for 2015/16 was reported to the Public Accounts Select Committee and the Mayor & Cabinet on 1<sup>st</sup> June 2016.

### **3 RECOMMENDATION**

- 3.1 To note this report and the appended documents.

### **4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION**

- 4.1 Officers have prepared the draft pre-audit accounts so as to be able to despatch them to this Panel by 2<sup>nd</sup> June 2016 for their information. The final pre-audit accounts will be finalised and submitted to the external auditors, Grant Thornton on 3<sup>rd</sup> June 2016. This is a month ahead of the official deadline which is the 30<sup>th</sup> June 2016. The pre-audit Pension Fund accounts will be presented to the Pensions Investment Committee on 9<sup>th</sup> June 2016.
- 4.2 Within the Statement of Accounts there are four statements which are defined as “core financial statements”, which essentially means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

#### ***Movement in Reserves Statement (MiRS)***

- 4.3 This shows the movement in the year in the different reserves held by the Council, analysed into ‘usable’ which can be used to fund expenditure and ‘unusable’ which are technical and cannot be used to fund expenditure. This summarises the available resources that can be used to fund future expenditure and to manage financial risks.

#### ***Comprehensive Income and Expenditure Statement (CIES)***

- 4.4 The CIES sets out the total expenditure by the authority in the 2015/16 financial year, some circa £1.1bn. The format of the CIES is completely different to the Council’s management accounts, which present income and expenditure by Directorate. However, a reconciliation between the two is provided by note 22 to the core financial statements, segmental reporting, which discloses net expenditure by directorate in a form that members will be familiar with from the Financial Results 2015/16 report.

#### ***Balance Sheet***

- 4.5 The balance sheet reports the ‘total equity’ of the Council, and shows that it is similar to that of last year, around £1.29bn as at 31<sup>st</sup> March 2016 compared with some £0.97bn as at March 2015.

#### ***Cash Flow Statement***

- 4.6 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2015/16 financial year. This statement is more valuable to understanding the financial health of private companies rather than local authorities, since most local authority funding comes either from government grants or from local property taxation.

## ***Other Statements***

4.7 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are very important to understanding key aspects of local authority services and financing.

- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
- The Collection Fund which presents a summary of the collection of Council Tax and National Non Domestic Rates (NNDR).

4.8 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding the financial position of the authority:

- Notes 13 and 15 to the core financial statements, which disclose the debtors to and creditors of the Council as at 31<sup>st</sup> March 2016
- Note 8 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.

4.9 The format of the accounts is essentially prescribed by statute and associated regulations. As a result, the document is long and detailed. Members may have questions that they wish to pose to officers on points of detail. Appropriately qualified officers will attend the meeting on 8<sup>th</sup> June 2016 to respond to these questions and issued raised. However, given the level of detail contained in the Statement of Accounts it is possible that some questions of detail may not be capable of being fully answered at the meeting. If Members have such questions, they are asked to submit them to [paul.calnan@lewisham.gov.uk](mailto:paul.calnan@lewisham.gov.uk), ideally at least 24 hours before the meeting.

## **5 ISSUES FOR THE ATTENTION OF MEMBERS**

5.1 In constructing the accounts, officers have applied professional judgements in a number of areas. Some of these areas are where the appropriate treatment is subject to professional debate. Although officers have maintained an open dialogue with the external auditors during the compilation of these accounts, it is possible that the auditors may, during the course of their audit work, come to a different view, and as a result may recommend a different treatment.

5.2 Where future funding is uncertain, consideration needs to be given to 'impairing' (i.e. reducing) the value of assets that might be affected, for example if services are forced to close as a result. Although future government funding is less certain than it has been in previous years, officers are of the view that there is sufficient certainty as regards funding in 2016/17 and subsequent years that such impairments are unnecessary.

5.3 Other areas where officers have been required to make judgements about possible future events include issues such as judging the amounts of the debts due to it that

may ultimately not be paid and more technical issues such as the actuarial assumptions to apply to value future pension liabilities.

- 5.4 In considering 2013/14 accounts, it was concluded that full consolidated group accounts for the Council were not required on the grounds of materiality. This approach was again taken for 2014/15 and has continued for the 2015/16 accounts. The Council's group interests are disclosed by means of the note on 'Investment in Companies' (note 24).

## **6 FINANCIAL IMPLICATIONS**

- 6.1 The accounts are a financial document and present a picture of the Council's activities in 2015/16 and its assets and liabilities as at 31<sup>st</sup> March 2016. However, there are no financial implications directly arising from the Panel considering the pre-audit accounts.

## **7 LEGAL IMPLICATIONS**

- 7.1 Regulation 8(2) of the Accounts and Audit Regulations 2011 (the Regulations) means that local authorities are no longer required to obtain elected Members' approval of their pre-audit accounts. Regulation 8(3)(b) does require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final audited accounts, having considered the auditor's report thereon.
- 7.2 The Regulations do require that the draft accounts are approved for issue by 30<sup>th</sup> June, following the year end by the Responsible Finance Officer under s151 of the 1972 Act. In Lewisham, that responsible officer is the Executive Director for Resources and Regeneration.

## **8 OTHER IMPLICATIONS**

- 8.1 There are no direct equalities, environmental or crime and disorder implications arising from this report.

## **APPENDICES**

Appendix 1 – Pre-Audit Statement of Accounts 2015/16  
Appendix 2 – Annual Governance Statement (AGS) 2015/16  
Appendix 3 – Pre-Audit Pension Fund Accounts 2015/16 – To follow

## **BACKGROUND PAPERS**

Financial Results 2015/16 (Mayor & Cabinet meeting 1<sup>st</sup> June 2016)

### **For further information on this report please contact:**

Selwyn Thompson, Head of Financial Services, on 020 8314 6932

Paul Calnan, Acting Group Finance Manager – Core Accounting, on 020 8314 6167  
Terry Madgett, Principal Accountant – Core Accounting on 020 8314 7650