

<b>AUDIT PANEL</b>			
<b>Report Title</b>	<b>Pre-Audit Statement of Accounts 2016/17 and Annual Governance Statement</b>		
<b>Key Decision</b>	<b>No</b>		<b>Item No. 6</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: 20<sup>th</sup> June 2017</b>	

## **1 SUMMARY AND PURPOSE**

- 1.1 To review and comment on the pre-audit Statement of Accounts for 2016/17 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 2016/17 is attached as Appendix 1 to this report and the draft Annual Governance Statement (AGS) is attached as Appendix 2. The pre-audit Pension Fund accounts are attached as Appendix 3.
- 2.3 The summary of net expenditure against budgets for 2016/17 was reported to Mayor & Cabinet on 7<sup>th</sup> June 2017.

## **3 RECOMMENDATION**

- 3.1 To note this report and the appended documents.

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

- 4.1 The pre-audit accounts have been prepared by officers and were submitted to the external auditors, Grant Thornton on 30<sup>th</sup> May 2017. This is a month ahead of the official (statutory) deadline, which is the 30<sup>th</sup> June 2017. The pre-audit Pension Fund accounts will be presented to the Pensions Investment Committee on 22<sup>nd</sup> June 2017.
- 4.2 As from next year (2017/18) the official deadline for the pre-audit Accounts will be 31<sup>st</sup> May. Therefore, officers have already demonstrated in 2016/17 (and in last year 2015/16) that they will be able to meet this new requirement.
- 4.3 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.

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

- 4.4 The CIES sets out the total expenditure by the authority in the 2016/17 financial year, some £1.1bn. Following a change to the Code of Practice, the format of the CIES is now consistent with the Council's management accounts, being based on the Directorate structure. The figures for 2015/16 have been restated to provide a like-for-like comparison.

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

- 4.5 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.

### ***Balance Sheet***

- 4.6 The balance sheet reports the 'total equity' of the Council, and shows that it is similar to that of last year, around £1.46bn as at 31<sup>st</sup> March 2017 compared with £1.41bn as at 31<sup>st</sup> March 2016.

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

- 4.7 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2016/17 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***

- 4.8 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 Non-Domestic Rates (NDR).
- 4.9 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding of the financial position of the authority:
- Note 1 to the core financial statements – the Expenditure and Funding Analysis, which is a new note for 2016/17 and demonstrates how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates
  - Notes 14 and 16 to the core financial statements, which disclose the debtors to and creditors of the Council as at 31<sup>st</sup> March 2017
  - Note 9 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.

- 4.10 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 20<sup>th</sup> June 2017 to respond to these questions and issues 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 the 2016/17 accounts, it was concluded that full consolidated group accounts were required on the grounds of materiality. The group accounts are an amalgamation of the Council's own 'single entity' accounts with those of our subsidiaries – Lewisham Homes & Catford Regeneration Partnership Ltd. In the previous three years, the Council's interests in these companies had been disclosed in a note to the accounts only – Investment in Companies.

## **6 FINANCIAL IMPLICATIONS**

- 6.1 The accounts are a financial document and present a picture of the Council's activities in 2016/17 and its assets and liabilities as at 31<sup>st</sup> March 2017. However, there are no financial implications directly arising from the Panel considering the pre-audit accounts.

## **7 LEGAL IMPLICATIONS**

- 7.1 Under the Accounts and Audit Regulations 2015 (the Regulations), local authorities are not required to obtain elected Members' approval of their pre-audit accounts. However, the Regulations do 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 also 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 2016/17

Appendix 2 – Annual Governance Statement (AGS) 2016/17

Appendix 3 – Pre-Audit Pension Fund Accounts 2016/17

## **BACKGROUND PAPERS**

Financial Results 2016/17 (Mayor & Cabinet meeting 7<sup>th</sup> June 2017)

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

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