

Non-Executive Report of the: Audit Committee 27 September 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director Resources	Classification: [Unrestricted]
Annual Financial Reports 2015-16 and 2016-17 (Incorporating KPMG's Reports to Those Charged With Governance 2015-16 and 2016-17)	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All wards

Summary

This report presents the Annual Financial Report for 2016-17 for approval. The report comprises a Narrative Report by the Corporate Director, Resources, the audited Statement of Accounts and the Annual Governance Statement.

The external auditors, KPMG are also tabling their final report to those charged with governance (ISA260) for 2015-16 and a draft report for 2016-17 on this agenda.

Recommendations:

The Audit Committee is recommended to:

1. Note the auditor's 2015-16 final report to those charged with governance for 2015-16 and the letter of representation for 2015-16.
2. Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2017, having regard for the auditor's Annual Governance Report and the letter of representation 2016-17.
3. Note that the draft Annual Financial Report for 2017-18 will be published by 31st May 2018 and the audit opinion is to be provided by 31st July 2018.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial report statements by statutory deadlines each year. The external auditors are required to audit this report information by 30th September and to provide an audit opinion.

2. ALTERNATIVE OPTIONS

- 2.1 The Council produces its Statement of Accounts in line with the relevant guidance and legislation.
- 2.2 This report is produced to ensure the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered appropriate.

3. DETAILS OF REPORT

- 3.1 The Annual Financial Report comprises three main elements:
- A Narrative Report
 - The Statement of Accounts
 - The Annual Governance Statement (signed for approval by the Mayor and Chief Executive).
- 3.2 The Annual Financial Report for 2016-17 is attached as Appendix 1. The audit has almost concluded without any changes being required to the Council's usable reserves.

The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit Regulations 2015. The accounts must be prepared and certified by 30th June by the Corporate Director, Resources (the 'responsible financial officer') stating that it presents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value of giving Members early notification of the financial outcome of the previous financial year.

- 3.3 For 2016-17 the audit of the Accounts was conducted by KPMG commencing in July 2017 and expected to be finalised by the end of September.
- 3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to this Committee by the auditors. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to this Audit Committee.

Note that KPMG's appointment continues until 31st March 2018, though they will continue to work with the Council whilst they conduct the 2017-18 audit. The Council has taken part in a group tender exercise organised by PSAA (Public Sector Audit Appointments). This group tender is intended to reduce procurement costs and will also demonstrate that the auditor appointment process was completely impartial.

4. ANNUAL FINANCIAL REPORT 2015-16

- 4.1 The Annual Financial Report for 2015-16 was approved by the Audit Committee in September 2016 and KPMG tabled a draft ISA260 at the March 2017 Committee. KPMG have now completed their audit for 2015-16 and are tabling their final report at this committee as a separate agenda item.
- 4.2 Though an unqualified opinion on the accounts has been provided, the ISA260 report makes reference to the governance review not being completed by the end of 2015-16; grant payment management and the risk of section 106 monies received from developers under the Town & Country Planning Act 1990 becoming due for repayment. These receipts are to be used for improvements towards community and social infrastructure. The report contains management responses to these last two items.
- 4.3 Attached is the letter of representation for 2015-16 that the Committee Chair and Chief Financial Officer will sign. The letter makes reference to the £151,778 of grants paid without appropriate property agreements in place as required by the Commissioners. To put this in context, the Council paid out over £3.4m of grants during 2015-16.

5. ANNUAL FINANCIAL REPORT 2016-17

- 5.1 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Code of Practice on Local Authority Accounting" and "Standard of Professional Practice on Financial Reporting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRS). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.
- 5.2 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. However, the Auditor's opinion just applies to the Statement of Accounts section of the document. Although the Auditor will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 5.3 The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as:

- What did the authority's services cost in the year?
- Where did the money come from?
- What were the authority's assets and liabilities at the year end
- Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations.

- 5.4 The Council's 2016-17 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet in June and Overview and Scrutiny Committee in July.
- 5.5 **Audit Opinion** – the external auditor anticipates giving an unqualified opinion on the accounts and that they give a true and fair view for the year ended 31st March 2017. There were no material changes to the draft accounts that affect the Council's reported financial position or usable reserves. Though the audit review of the Accounts has not been completed, the auditors have not raised any major concerns on the accounts so far.
- 5.6 **Value For Money Assessment** – The VFM conclusion will be unqualified. However the auditors will want to bring some matters to the Committee's attention at the meeting. The auditors acknowledge improvements have been made to working practices but the work plans are not yet complete.
- 5.7 The VFM assessment will comment on the following areas:
- S106 Agreements** – the auditors are reviewing if s106 monies will be spent within the agreement timescales.
 - Grant payments** – the award of grant payments is reviewed by the Commissioners. The auditors are reviewing the Council's grant register to see if all relevant grant payments have been subject to suitable approval processes.
- 5.8 **Objections to the Accounts by the public** - As part of the process for the inspection of the Council's Accounts, local electors are able to raise objections to the Statement of Accounts with the external auditors. One objection to the 2016-17 Accounts was received. It relates to the legality of the Council entering into PFI contracts. The Council entered into these contracts over ten years ago. As KPMG have received a number of similar objections at their other clients, KPMG are currently considering how to respond to be consistent across all of their clients.
- 5.9 LOBO Loans objection – an objection was received in 2016 for the 2015-16 Accounts relating to the legality of the Council using LOBO bank loans. The auditors have come to a draft conclusion that they consider that local authorities have the power to borrow and the use of LOBO loans is lawful. Also the auditor concluded the Council made a rational approach in making the decision to borrow.

- 5.10 Parking objection – the auditors are finalising the parking objection received on the 2014-15 Accounts. Though the Council may have acted appropriately with its parking enforcement arrangements on housing estates, the Council is considering the introduction of Traffic Management Orders on housing estates, which is in accordance with the objector’s wishes.
- 5.11 The auditors have to conclude their review of objections before they can formally conclude their audits for 2014-15 and 2015-16, though the nature of these objections will not delay the accounts audit opinion being given.

6. Statement of Accounts Recap

- 6.1 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 2016-17 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council’s own budget and service organisational structure.</p> <p>The draft accounts show gross revenue spend in 2016-17 of £1.25 billion with a net surplus of £53.5 million. The surplus was lower than 2015-16 mainly due to an adverse IAS19 pension deficit valuation compared to the previous year. This surplus includes a number of technical accounting entries which do not form part of the Council’s actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then ‘reversed out’ in the Movement in Reserves Statement. The change in actual usable reserves is explained within the Movement of Reserves statement below.</p> <p>The new Expenditure and Funding</p>
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	<p>Analysis (note 7) explains and reconciles the figures in the CI&E to the Directorate expenditure figures reported in the outturn report.</p>
<p>Movement in Reserves Statement</p>	<p>The Movement in Reserves Statement combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>After transferring part of the General Fund balance to earmarked reserves, the General Fund balance at 31st March 2017 is £31.7m. This includes the impact of a net surplus of £0.7m on the general fund revenue account during the year as reported to Cabinet. The general fund reserve has been reduced from £72.1m at 31st March 2016 partly due to transfers to earmarked reserves, including £20m for the Civic Centre reserve, £5m for Mayor's Tackling Poverty Fund, £6m for free school meals and £7.5m for a risk reserve to manage unforeseen matters arising.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. A review has been conducted of reserves to ensure funds are available to fund Members' priorities such as social care, Transformation and IT investment. A table of reserves is included as note 8 in the Accounts.</p>
<p>Balance Sheet</p>	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2017. The value of the assets of the Council must equal the value of its liabilities plus reserves.</p> <p>Assets include property, plant and</p>

	<p>equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.285 billion in value, an increase of around £120 million due to general increase in value of housing stocks and capital expenditure.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council. There was no new external borrowing in 2016-17.</p> <p>The net assets of the Council (assets less liabilities) were £1.84 billion, which was an increase from 31st March 2016 when the figure was £1.79 billion. The main reason for the increase is the increase in property values.</p>
Housing Revenue Account	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,692 dwellings.</p> <p>The HRA balance as at 31st March 2017 is £39.1 million, up £7 million. Most of the increase was due to the government failing to implement its levy on the sale of higher value void properties. It is yet to be confirmed if the levy will be payable in the future.</p>
Group Accounts	<p>For a number of years it has been agreed in principle with the auditors that Group Accounts are not required as the asset and liabilities of Tower Hamlets Homes (THH) are not considered material enough to warrant the production of group accounts. THH is 100% owned by the Council and does all of its business with the Council. Note 44 of the accounts shows a summary of THH's draft accounts.</p>
Collection Fund	The Collection Fund is a separate

	<p>account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000 which is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a deficit of £5.4 million for 2016-17. The overall balance carried forward on the Fund is a deficit of £11.3 million. The 2016-17 deficit was due primarily to appeals on business rates bills.</p> <p>The Council is awaiting the Government's announcements on how the business rates system will change in future as it moves towards a '100%' retained business rates model for authorities.</p>
Cash Flow Statement	The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.
Pension Fund Accounts	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31st March 2017.</p> <p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £1.367 billion (an increase of 21% from the</p>

	<p>£1.126 billion March 2016 valuation).</p> <p>The results of the triennial revaluation completed during 2016-17 estimated a funding deficit of £235 million (an improvement from £365m in 2013) and a funding level of 82.7% (up from 71.8% in 2013). The next triennial valuation will be in 2020.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>
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7. COMMENTS OF THE CHIEF FINANCE OFFICER

- 7.1 The draft Annual Financial Statement and in particular the Statement of Accounts have been prepared by the CFO's staff in accordance with the relevant regulatory requirements. These are now subject to the external audit process with any significant issues being brought to the Committee's attention in September

8. LEGAL COMMENTS

- 8.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 8.2 The Accounts and Audit Regulations 2015 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The Audit Committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Local Auditor under the Local Audit and Accountability Act 2014. For 2017-18 onwards, the draft accounts are to be published by 31st May and the audit opinion received by 31st July.

- 8.3 As indicated in the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.
- 8.4 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. The Annual Financial Report for 2016-17 will go towards demonstrating that the Council is meeting this duty.
- 8.5 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 There are no direct One Tower Hamlets considerations arising from this report.

10. BEST VALUE (BV) IMPLICATIONS

- 10.1 The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors KPMG. KPMG have reported on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter published alongside the committee decision to approve the accounts.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 There are no SAGE implications arising out of this report.

12. RISK MANAGEMENT IMPLICATIONS

- 12.1 There are no specific risk management implications.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 13.1 There are no crime and disorder reduction implications.
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Linked Reports, Appendices and Background Documents

Linked Report

- Annual financial report 2015-16 tabled at September 2016 Audit Committee
- Draft annual financial report 2016-17 tabled at June 2017 Committee

Appendices

- Annual Financial Report 2016-17
- Letters of Representation 2015-16 and 2016-17 (2016-17 letter to follow)

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

- Kevin Miles, Chief Accountant (ext. 6791)