

Non-Executive Report of the: Audit Committee 25 th July 2018	
Report of: Zena Cooke, Corporate Director Resources	Classification: Unrestricted
Annual Financial Report 2017-18	

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

Executive Summary

This report presents the Annual Financial Report for 2017-18 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 draft report to those charged with governance (ISA260) for 2017-18 on this agenda.

Recommendations:

The Audit Committee is recommended to:

1. Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2018, having regard for the auditor's Annual Governance Report and the letter of representation.

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 the statutory deadline of 31st July each year. The external auditors are required to audit this report and to provide an audit opinion by the same date.

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 THE 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 2017-18 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 31st May 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 31st July the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published.

- 3.3 For 2017-18 the audit of the Accounts was conducted by KPMG, commencing in June 2018 and is expected to be finalised by the end of July. This deadline is two months earlier than the equivalent date in 2016-17 which was 30th 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.
- 3.3 Note that KPMG's appointment ended on 31st March 2018, though they will continue to work with the Council whilst they complete the 2017-18 audit. The Council has taken part in a group tender exercise organised by PSAA (Public Sector Audit Appointments). This group tender was intended to reduce procurement costs and will also demonstrate that the auditor appointment process was completely impartial. Deloitte will be conducting the 2018-19 audit.

4. ANNUAL FINANCIAL REPORT 2017-18

- 4.1 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).

- 4.2 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.
- 4.3 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.

- 4.4 The Council's 2017-18 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet in June and Overview & Scrutiny Committee in July.
- 4.5 **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 2018. 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.
- 4.6 **Value For Money Assessment** – The VFM conclusion will tabled at the meeting. It is likely to be unqualified.
- 4.7 **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. No objections to the 2018-19 Accounts have been received. An objection was received to the 2016-17 Accounts relating 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.
- 4.8 Following the conclusion of objections relating to parking contracts and the use of LOBO Loans objection, the auditors have concluded that the Council did not do anything unlawful so were able to complete the 2014-15 and 2015-16 audits. The 2016-17 audit will be completed once the PFI objection is concluded.

4.9 **Statement of Accounts Recap**

4.10 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 2017-18 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 2017-18 of £1.26 billion with a net surplus of £247.2 million. The surplus was higher than 2016-17 mainly due to a reduced IAS19 pension deficit valuation compared to the previous year and for increases in asset values. 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 Expenditure and Funding 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</p>	<p>The Movement in Reserves Statement</p>

Statement	<p>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 2018 is £33.2m. This includes the impact of a net surplus of £1.5m on the general fund revenue account during the year as reported to Cabinet.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. a table of reserves is included as note 8 in the Accounts.</p>
Balance Sheet	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2018. The value of the assets of the Council must equal the value of its liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.506 billion in value, an increase of around £221 million due to general increase in non- housing property 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 2017-18.</p> <p>The net assets of the Council (assets less liabilities) were £2.09 billion, which was an increase from 31st March 2017 when the figure was £1.84 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 11,568 dwellings.</p> <p>The HRA balance as at 31st March 2018 is £47.6 million, up £8.5 million. Most of the increase was due to HRA capital spend being financed from capital receipts rather than the HRA revenue budget.</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	<p>The Collection Fund is a separate 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 £70,000 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 £23.7 million for 2017-18. The overall balance carried forward on the Fund is a deficit of £35.0 million. The 2017-18 deficit was due primarily to appeals on business rates bills and refurbishment of</p>

	<p>office blocks which has temporarily removed NNDR charges – these backdated charges will be reinstated once the refurbishment work is complete.</p> <p>From 1st April 2018, the Council and GLA share NNDR receipts which are paid into a London wide pool. This extra share of NNDR income is offset by the removal of Revenue Support Grant (£54m in 2017-18).</p>
Cash Flow Statement	<p>The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.</p>
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 2018.</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 £1.481 billion (an increase of 8% from the £1.368 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. The actuary estimated the funding level of the fund was around 90% at March 2018</p> <p>The Pensions Fund accounts will be considered by the July Pensions Committee.</p>

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.

5.2 **Best Value Implications** - 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.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The audited 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 have now been reviewed by the external auditors who will bring any significant issues to this Committee's attention.

7. COMMENTS OF LEGAL SERVICES

7.1 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.

7.2 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 31 May 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 31 July 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 31 July along with any certificate, opinion or report issued or given by the Local Auditor under the Local Audit and Accountability Act 2014.

- 7.3 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.
- 7.4 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 2017-18 will go towards demonstrating that the Council is meeting this duty.
- 7.5 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.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE.

Appendices

- Annual Financial Report 2017-18
- Letters of representation 2017-18

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:

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