

## **AUDIT AND STANDARDS COMMITTEE – 14 SEPTEMBER 2017**

### **2016/17 STATEMENT OF ACCOUNTS**

#### **EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2016/17**

##### **Purpose of this Report**

1. The purpose of the following report is to communicate any relevant matters arising from the external audit of the 2016/17 Statement of Accounts to Members and in acknowledging these findings request that approval is given to allow the auditors to conclude the audit, by signing the Letter of Management Representations and the Statement of Accounts.

##### **Introduction and Background**

2. The Council's 2016/17 Statement of Accounts were authorised by the Interim Executive Director of Resources (Section 151 Officer) on the 9 June 2017. At this time the accounts were still subject to External Audit by KPMG. This audit is now complete and the External Auditor's findings have been received.
3. The Statement of Accounts needs to be approved by the Audit and Standards Committee at this meeting.
4. As the Statement of Accounts is a technical document some explanatory notes are attached at **Appendix 1** to this report to aid understanding. These notes explain the purpose of each statement and the peculiarities of Local Authority accounting.
5. External Auditors are required to undertake their work in accordance with International Auditing Standards. Specifically, they are required to communicate any relevant matters relating to the audit to those charged with governance.

##### **Findings from the External Audit of the 2016/17 Statement of Accounts**

6. The findings from the external audit review are set out in detail in their Report to those Charged with Governance (ISA 260) 2016/17, which is a separate report, and members are asked to note the contents.
7. As a result of on-going work on the draft accounts produced in June, some minor misstatements and presentational errors have been identified by officers and others have been identified as a result of the external audit.

The necessary amendments have been made to the Statement of Accounts and agreed with the auditors.

8. The Report to those Charged with Governance (ISA 260) 2016/17 Appendix 3: Audit Differences, identifies a number of adjustments which have been amended in the accounts.
9. The Section 151 officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices, and he will certify that they give a true and fair view (i.e. that the financial statements present a true and fair view of the financial position of Sheffield City Council as at 31 March 2017 and its income and expenditure for the year). We understand that the auditors intend to issue an unqualified audit opinion on the accounts.
10. The External Auditors are also required to report on value for money, specifically on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The Report to those Charged with Governance (ISA 260) 2016/17, Section 2 reports an unqualified conclusion.
11. In order to complete their audit and satisfy their auditing standards, the Auditors are requesting written management representation from those charged with governance. Appropriate enquiries have been made with responsible officers within the Authority in order to confirm the representations included. Therefore, a letter of management representations in the format prescribed by the External Auditors needs to be signed by the Chair of the Audit and Standards Committee.
12. The Auditors are also required to ask those charged with governance to confirm that there are no material uncertainties that cast significant doubt about the ability of the Council to continue as a going concern. Appropriate enquiries have been made within the Council and for other parties in which the Council has an interest and no material uncertainties have been identified.

### **Publication of the 2016/17 Statement of Accounts**

13. As part of their work to complete the audit, the Auditors issue an opinion on the Statement of Accounts and a Certificate of Completion of the Audit. It is intended that an unqualified opinion will be given on the Statement of Accounts. The Auditors will not be able to issue a certificate to close the Audit until work for the outstanding objections to the 2016/17 Statement of Accounts have been concluded.

14. The 2016/17 Statement of Accounts will be published on the Council's website. Once the Certificate of Completion is received a statement will be published to inform that the audit has been concluded and the accounts have been published.

### **Financial Implications**

15. There are no financial implications arising from the recommendations set out in this report.

### **Equal Opportunities Implications**

16. There are no equal opportunities implications arising from the recommendations set out in this report.

### **Property Implications**

17. There are no property implications arising from the recommendations set out in this report.

### **Recommendations**

18. It is recommended:

- That the Audit and Standards Committee accepts the Report to those Charged with Governance (ISA 260) 2016/17.
- That following the above acceptance the Chair of the Audit and Standards Committee provides her signature to the Letter of Management Representations in order to conclude the audit;
- That the Audit and Standards Committee approves the Statement of Accounts for 2016/17 and the Chair of the Audit and Standards Committee provides her signature to the Statement of Accounts.

**David Phillips**  
**Head of Strategic Finance**

**14 September 2017**

## **APPENDIX 1**

### **Explanatory Note: Statement of Accounts**

1. The purpose of this document is to provide guidance on the interpretation of the Council's Statement of Accounts. The accounts comprise several key statements:

- Expenditure and Funding Analysis Statement
- Comprehensive Income and Expenditure Account
- Movement in Reserves
- Balance Sheet
- Cash Flow Statement
- Key Notes to the Core Financial Statements
- Housing Revenue Account Income and Expenditure Account
- Collection Fund

### **Peculiarities of Local Authority Accounting**

2. The presentation of Local Authority accounts differs greatly to that of the private sector. Many of these differences occur due to legislative requirements for Local Authority accounts. For example, in the Council's accounts income is shown as a negative figure in brackets and expenditure is shown as a positive figure.
3. There are also significant differences in the way the Council accounts for Capital and Pension Contributions.

### **Capital**

4. Local Authorities account for capital in line with International Financial Reporting Standards (IFRS) on the face of the income and expenditure account. However, the impact of any charges are "reversed" out in an adjustment between accounting basis and funding basis under regulation, so that they do not impact on the amount collected in Council Tax.

### **Pensions**

5. Local Authorities are required to comply with International Accounting Standards (IAS) 19 on accounting for post-employment benefits, which means accounting for pension liabilities when they are committed to giving them, not when they are actually paid out. The Council complies with IAS 19 and recognises the Council's share of the net liability of South Yorkshire Pension Scheme in the balance sheet. Within the Comprehensive Income and Expenditure account the cost of service figures have been adjusted so they represent the true costs of pensions

earned, IAS 19 does not have any effect on the amount collected in Council Tax as they are reversed out as an adjustment between accounting basis and funding basis under regulation.

### **Expenditure and Funding Analysis Statement**

6. The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (Government grants, rents, Council Tax and business rates) by local authorities 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 portfolios / services.
7. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

### **Comprehensive Income and Expenditure Account**

8. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (Council Tax).
9. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.
10. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

### **Movement in Reserves**

11. This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.
12. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.
13. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes, therefore an adjustment is

made to the movement in reserves statement for adjustments between accounting basis and funding basis under regulation.

14. The net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### **Balance Sheet**

15. The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

16. Reserves are reported in two categories:

- Usable reserves - those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- Unusable reserves - those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

### **Cash Flow Statement**

17. The Cash Flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents.

18. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority.

### **Key Notes to the Financial Statements**

19. The notes to the accounts contain information in addition to that presented in the main statements. They provide narrative descriptions, disaggregation of items presented in the statements and further information about items in the statements.

20. The report on the Outturn position at the end of the 2016/17 financial year was considered by Cabinet on 21 June 2017. This reported a net deficit of £2.3m overall for the general fund revenue account. The Statement of Accounts is in line with the outturn report but sets out the more detailed financial position for the Council in a format required by legislation. The Expenditure and Funding Analysis and the following note show the reconciliation between the outturn position and the statement of accounts:

- *Adjustments between accounting basis and funding basis under regulations (Note 12)* – this note details how the CIES has been adjusted in accordance with accounting practice, and the resources that are specified by statutory provision as being available.

### **Housing Revenue Account (HRA)**

21. The HRA Income and Expenditure Statement shows the economic cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.

22. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

### **Collection Fund**

23. The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Central Government of council tax and business rates.

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