

North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 6TH SEPTEMBER 2017

SUBJECT OF REPORT: STATEMENT OF ACCOUNTS 2016/17

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: MALCOLM COE, HEAD OF FINANCE AND PROPERTY

KEY DECISION: YES

RECOMMENDATIONS

1. The Audit Committee is requested to:

- i. consider the matter(s) raised in the Annual Governance Statement;
- ii. take note of any adjustments to the financial statements set out in the external auditors report;
- iii. approve the letter of representation; and

2. That subject to any comments under 1 above, the Audit Committee:

- i. approves the Statement of Accounts for 2016/17,
- ii. arrange for the Chair of the Council Audit Committee and the Chief Financial Officer to sign the Council's Statement of Accounts for 2016/17 as representing a 'true and fair view' of the financial position of the Council as at 31 March 2017,
- iii. arrange for the Leader of the Council and the Chief Executive Officer to formally approve the Council's Annual Governance Statement as part of the financial statements and sign accordingly.

1. SUMMARY OF REPORT

Statement of Accounts

The Council's draft Statutory Statement of Accounts was prepared and approved ready for audit by the Head of Finance and Property on 12 June 2017. The Accounts have now been audited and are being presented to Audit Committee for formal approval.

The Accounts and Audit Regulations require the accounts to be formally approved and published by 30 September 2017. The revised Statement of Accounts for 2016/17 are attached at Appendix A.

Annual Governance Statement

The Annual Governance Statement (AGS) is required by the Accounts and Audit Regulations 2015 to be published with the Council's Statement of Accounts, and to be formally approved and signed by the Leader of the Council and the Chief Executive.

The AGS for 2016/17 has been completed in accordance with the framework previously agreed by the Audit Committee. There is one significant issue identified this year, and the Statement continues to reflect the current position at September 2017.

2. POLICY

The preparation and publication of an Annual Governance Statement is in accordance with the "Delivering Good Governance in Local Government" framework introduced by CIPFA SOLACE during 2007, and updated in 2012. The Statement explains how North Somerset Council has complied with the Local Code of Corporate Governance which arises from the CIPFA framework and also meets the requirements of:

- The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, specifically Regulation 4 in respect of the preparation and publication of a Statement of Internal Control; and
- The Accounts and Audit (England) Regulations 2015, specifically Regulation 4 (2) in respect of the annual review of the effectiveness of its system of internal control and Regulation 4 (3) in respect of the preparation and publication of an Annual Governance Statement.

These regulations require authorities to "conduct a review at least once a year of the effectiveness of its system of internal control" and to prepare a statement on internal control "in accordance with proper practices". Regulation 4 requires the findings of the review of the system of internal control to be considered by a Committee of the relevant body, or by its members of the body meeting as a whole, at North Somerset Council, this function is the responsibility of the Audit Committee.

3. DETAILS

Statement of Accounts

The draft Statement of Accounts 2016/17 was approved by the Head of Finance and Property and published on the Council's website on 12 June 2017, which was earlier than the requirement to publish by 30 June 2017.

Changes to arrangements for approval of the Council's audited accounts

The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be approved by the Council by 30 September 2017.

As reported to the Audit Committee on 1 December 2016, the Accounts and Audit Regulations 2015 require that, from 2017/18 onwards, the publication date for the approved accounts changes from 30 September to 31 July. Whilst it is recognised that the current Regulations apply to the 2017/18 accounts, the Council agreed to move closer to the new timeframe with its preparation of the accounts for the 2016/17 financial year, a year ahead of the legal requirement.

In previous years, the Council's Financial Regulations required that the annual accounts were considered in detail by the Audit Committee, and were then referred on to Council with a recommendation for their approval. In order to achieve compliance with the much shorter revised statutory deadline in the future, at its meeting of 18 July 2017, Council approved amendments to the Financial Regulations relating to the approval of the accounts. Financial Regulation 6.6 now requires that 'The audited Statement of Accounts shall be approved by the Executive, Council or Audit Committee in accordance with the required legislative timetable.'

In line with the revised Financial Regulations, the 2016/17 accounts are therefore presented for approval by the Audit Committee following their detailed review, and do not require the additional approval by Council.

Changes to the 2016/17 Code of Practice

The Code is updated annually to reflect new or updated accounting standards. As reported to the Audit Committee on 1st December 2016, in 2016/17 there were a number of significant changes, these being;

- new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CI&ES) and the Movement in Reserves Statement (MiRS)
- the introduction of the new Expenditure and Funding Analysis (EFA) note, and
- the introduction of Highways Network Assets requiring measurement at Depreciated Replacement Cost. However CIPFA subsequently confirmed that this requirement no longer applies, and that infrastructure assets will continue to be measured at depreciated historical cost.

From 2016/17 local authorities are required to report their CI&ES based on the way they operate, structure and manage their services. This means that the service section of the CI&ES supports current accountability and responsibility areas, and is considered more meaningful as it follows the format of council's own budget and performance monitoring information and other key documents.

The presentation of the MiRS has been marginally "streamlined" to prevent duplication of information included in the CI&ES.

The new EFA note is intended to provide a clear link between in-year monitoring and General Fund information, and the final out-turn position as set out in the audited financial statements. The EFA brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund. The note also links the movement on the total of General Fund and earmarked reserves to the related notes.

Preparation of the 2016/17 Accounts and Next Steps

The Council's draft accounts for 2016/17 have been amended to reflect the new changes in legislation and the Narrative Statement provides additional information to explain key movements within the financial statements which have occurred during the year.

Since the draft accounts were presented for audit in June, the Council's external auditor's, Grant Thornton, have undertaken their review and prepared their Audit Findings Report (ISA

260 Report). This summarises the outcome on the annual accounts audit. This report is being presented to this meeting.

The revised Statement of Accounts for 2016/17, following the audit process, is attached at Appendix A.

As part of the completion of the audit, and prior to the issue of the audit certificate by the auditors, the Audit Committee is required to consider and sign a formal letter of representation, and to submit this to the auditor. This letter should be signed by the Head of Finance and Property and the Chair of Audit Committee, and is attached at Appendix B.

The Accounts have been produced in line with the CIPFA Code of Practice for 2016/17. The auditor has outlined in the ISA 260 report being presented to this Committee that he is satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2016/17 (The Code).

Annual Governance Statement

In accordance with the framework agreed by the Audit Committee, the Head of Audit West has led on the collation and co-ordination of information relating to the preparation of the draft Statement and gathering of evidence to support any statement made within the Statement.

The Audit Committee received an AGS review update in March 2017, prior to inclusion within the draft statement in June 2017.

The Council's final Annual Governance Statement has been published within the Statement of Accounts and is a declaration of assurance. Its aim is to report the extent to which the Council has in place reliable controls that will safeguard its resources and ensure that these are being used to meet priorities and service objectives agreed by Members.

No new significant governance failures or control issues have been identified during this year which satisfy the recommended criteria. However, as in the previous year, it is felt that the scale of the financial challenge which has faced the local government sector over recent years and will continue to do so for the immediate future merited specific inclusion as an issue. This is due to the on-going impact that this challenge has had over all Council activities and the severe pressure on council budgets that continues to be felt into this current year. The Statement sets out in more detail the high level actions that the council is taking to continue to tackle this significant issue.

4. CONSULTATION

As detailed in the body of the report, the Accounts were made available for inspection to members of the public, in line with statutory requirements.

Senior officers of the council have been involved with the formulation of the AGS, and members of the audit committee have been continually updated, with process as well as outcomes and findings.

5. FINANCIAL IMPLICATIONS

Financial implications are detailed throughout the Statement of Accounts.

6. RISK MANAGEMENT

Risk implications are contained throughout the Annual Governance Statement.

Failure to comply would result in non-compliance of Statutory Legislation and leave the council open to criticism by external audit.

7. EQUALITY IMPLICATIONS

None

8. CORPORATE IMPLICATIONS

Although the production of an Annual Governance Statement is a statutory requirement of the Accounts and Audit (Amendment) (England) Regulations, the responsibility for securing effective governance, internal control and risk management arrangements rests with all senior officers and members of the Council, and not with auditors and finance staff alone.

The Council's external auditor will have to take a view on whether any significant governance or internal control weakness identified by the AGS, and the action being taken to remedy them, are a proper reflection of the Council's governance and internal control arrangements, and that no material weaknesses have been omitted.

9. OPTIONS CONSIDERED

None. The accounts are produced in line with statutory legislation.

AUTHOR

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BACKGROUND PAPERS

NSC Statement of Accounts 2016/17

APPENDICES

App A Revised Statement of Accounts 2016/17, including amendments and audit opinion

App B Draft Letter of Representation 2016/17

APPENDIX B

Date: 6 September 2017
My ref:
Your ref:
Contact: Steve Ballard
Direct dial: 01275 884037
Email: Steve.Ballard@n-somerset.gov.uk

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

Dear Sirs

North Somerset Council Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of North Somerset Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code"); which give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii. Except as disclosed in the financial statements:
 - a) there are no unrecorded liabilities, actual or contingent
 - b) none of the assets of the Council has been assigned, pledged or mortgaged
 - c) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii. We have considered the misclassification and disclosures changes schedule included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:

- a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b) additional information that you have requested from us for the purpose of your audit; and
 - c) unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a) management;
 - b) employees who have significant roles in internal control; or
 - c) others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Statement

- xxv. The disclosures within the Narrative Statement fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter was minuted by the Audit Committee at its meeting on 6 September 2017.

Signed on behalf of North Somerset Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 6 September 2017.

Malcolm Coe
Head of Finance and Property
6 September 2017

Cllr Mary Blatchford
Chairman of the Audit Committee
6 September 2017