

North Somerset Council

Report to the Audit Committee

Date of Meeting: 20 September 2021

Subject of Report: Statement of Accounts 2020-21

Town or Parish: All

Officer/Member Presenting: Steve Ballard, Principal Accountant / Melanie Watts , Head of Finance

Key Decision: No

Recommendations

1. The Audit Committee is requested to:
 - a. consider the matter(s) raised in the Annual Governance Statement;
 - b. take note of any adjustments to the financial statements set out in the external auditor's report;
 - c. approve the draft letter of representation; and
2. That subject to any comments under 1 above, the Audit Committee:
 - a. approves the Statement of Accounts for 2020/21, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors;
 - b. arrange for the Chair of the Council's Audit Committee and the Chief Financial Officer to sign the Accounts for 2020/21 as representing a 'true and fair view' of the financial position as at 31 March 2021, following any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors; and
 - c. 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 accounts and sign accordingly.

Summary of Report

Statement of Accounts

1. The Council's draft Statutory Statement of Accounts was prepared and approved ready for audit by the Director of Corporate Services on 19 July 2021. The Accounts have now been audited and are being presented to Audit Committee for formal approval. The latest revised Statement of Accounts for 2020/21 are attached at Appendix A.
2. These revised accounts are reflective of all adjustments agreed with Grant Thornton during the course of the audit up to 20 September 2021, but clearly do not reflect the

impact of any changes which may potentially be required as a result of any outstanding audit testing and assurance works.

3. Grant Thornton, the Council's external auditors, currently expect to give an unqualified audit opinion, but are unable to provide their final audit opinion until their programme of audit assurance and testing is completed. Should any material impact of errors be identified from this work, they would need to be adjusted for.
4. The Accounts and Audit Regulations require the accounts to be formally approved and published by 30 September 2021. We therefore recommend that the latest revised Statement of Accounts for 2020/21 be approved, subject to, any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing.
5. It should be noted that, under the new Code of Audit Practice, which comes into effect from the audit year 2020/21, the external auditor's work on the Council's Value for Money arrangements is no longer included with the opinion in the annual accounts. The results of this work will now be reported in the Auditor's Annual Report, due to be reported to the Council by the end of December 2021.

Annual Governance Statement

6. 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 2020/21 has been completed in accordance with the framework previously agreed by the Audit Committee.

The AGS provides an update of the significant issues raised in the previous year's statement and highlights the key new risks to the Council arising from the Coronavirus pandemic. The Statement continues to reflect the current position at September 2021.

Policy

7. The Statement of Accounts provide an overview of the Council's financial performance for the year and its financial sustainability going forward. The preparation and publication of the Accounts therefore contributes towards the Council's Vision to be an 'Open, fairer and greener North Somerset', and our Priority to be an 'Open and enabling organisation'.

Details

Statement of Accounts

8. The draft Statement of Accounts for 2020/21 was approved by the Director of Corporate Services and published on the Council's website, on 17 July 2021, which is in line with the requirement for publication by 31 July 2021. This deadline was revised from 31 May 2020 due to the Covid-19 pandemic.
9. It is the responsibility of the Audit Committee to consider the draft Accounts in detail, and also approve the audited Accounts as part of their governance role.

10. Audit Committee members attended an informal workshop meeting in July 2021, which included a session on the statutory accounts. Officers presented the key issues arising from the accounts, including a review of the core statements, explanations of significant variances and trends over previous years, going concern concept and basis for preparing the accounts, critical judgements in applying the Council's accounting policies, and significant accounting estimates and sources of estimation uncertainty.
11. Since the draft Accounts were presented for audit in July, the Council's external auditors', Grant Thornton, have undertaken the majority of their review and prepared their draft Audit Findings Report (ISA 260 Report). This report summarises the outcome on the annual accounts audit to date, and is also being presented to this meeting.
12. The auditor has outlined in their draft report that, subject to, the completion of their audit testing, and any material impact of any errors arising from this work being adjusted for in the statement of accounts, he is satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2020/21 (The Code).
13. The Council's revised Statement of Accounts for 2020/21 following the audit process, is attached at **Appendix A**. A number of minor amendments have been agreed with the audit team and these have been reflected within the document. At this time these relate to changes within the narrative content, there have not been any changes to the values included within the core statements or notes which support them.
14. 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. A copy of this letter is attached at **Appendix B**, and should be signed by the Director of Corporate Services and the Chair of Audit Committee.
15. The sources of assurance available to members of the Audit Committee in reviewing and approving the Statement of Accounts, the Annual Governance Statement, and the Letter of Representation, are summarised in **Appendix C**.

Annual Governance Statement

16. 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 the Statement.
17. The Audit Committee received the Head of Audit West's opinion on the Council's internal control framework at the Audit Committee meeting update in April 2021, prior to inclusion within the draft statement of accounts in July 2021.
18. The Council's final Annual Governance Statement has been published within the Statement of Accounts, and is a declaration of assurance.
19. In the previous year, the AGS highlighted a number of key risks to the Council arising from the Coronavirus pandemic, and set out the high level mitigating actions that the Council had taken to continue to tackle these significant issues. This year's AGS includes an update on these mitigating actions.

20. The AGS also sets out the impacts of the Covid pandemic highlighted in 2020/21, and commentary and mitigating actions planned for 2021/22.

Consultation

21. 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.

22. Senior officers of the council have been involved with the formulation of the AGS, and members of the Audit Committee have been regularly updated with details of the process and outcomes.

Financial Implications

23. Financial implications are contained throughout the Statement of Accounts.

Legal Powers and Implications

24. The annual Accounts and the Governance Statement have been prepared in accordance with all relevant legislation, which is detailed throughout the report.

25. The Accounts and Audit (England) Regulations 2015, Regulation 9(2), requires the Council to:

- a) consider, either by way of a committee or by the members meeting as a whole, the statement of accounts;
- b) approve the statement of accounts by a resolution of that committee or meeting;
- c) ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

26. Regulation 9(3) requires the responsible financial officer to re-confirm on behalf of that authority that they are satisfied that the statement of accounts presents a true and fair view of:

- a) the financial position of the authority at the end of the financial year to which it relates; and
- b) that authority's income and expenditure for that financial year, before the approval of the accounts.

27. 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 meets the requirements of the Accounts and Audit (England) Regulations 2015, specifically Part 2, Regulation 3, which requires:

28. A relevant authority must ensure that it has a sound system of internal control which:

- a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

- b) ensures that the financial and operational management of the authority is effective; and
- c) includes effective arrangements for the management of risk.

29. Regulation 6(1) requires authorities to conduct a review of the effectiveness of its system of internal control, and to prepare an annual governance statement, at least once a year.

30. Regulation 6(2) requires the findings of the review of the effectiveness of the system of internal control, and the Annual Governance Statement, to be considered and approved 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.

Climate Change and Environmental Implications

31. None. The Accounts and AGS do not directly impact on climate change and the environment.

Risk Management

32. Risk implications are contained throughout the Annual Governance Statement.

33. Failure to comply would result in non-compliance of statute (notably approval of the accounts by 30 September 2021), and leave the Council open to criticism by external audit and other external organisations.

Equality Implications

34. The Accounts and AGS have been prepared in line with statutory legislation.

35. As highlighted at the Accounts Update report, reported to the April 2021 Audit Committee, the financial report presented to members, and for external audit review, has been produced in a new template, which is not fully readable by specialist accessibility document reader software, but is as accessible as possible in the time allowed. The audited accounts will be published on the Council's external website, and an accessible version of the final document will be prepared by the Council's Graphics team, and published on the Council's website.

Corporate Implications

36. 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.

37. The Council's external auditor will 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.

Options Considered

38. None. The Accounts and AGS have been prepared in line with statutory legislation.

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Appendices:

Appendix A Revised draft Statement of Accounts 2020/21, including amendments to date, but excluding the draft audit opinion

Appendix B Draft Letter of Representation 2020/21

Appendix C – Sources of assurance for Audit Committee members in approving the statement of accounts, Annual Governance Statement and Letter of Representation.

Background Papers:

NSC Statement of Accounts 2020/21 – Draft published 17 July 2021

Audit Committee - Accounts workshop slides - 29 July 2021

Appendix C

Sources of assurance for Audit Committee members in approving the statement of accounts, Annual Governance Statement and Letter of Representation.

The Council is a non-profit making, public sector organisation, and officers are not paid performance related pay. Therefore it is considered to be limited incentive for officers to fraudulently manipulate financial outcomes and the financial statements.

The Council has maintained its systems of internal control, including segregation of duties, regular review of key controls including bank reconciliations, control account reconciliations, and reconciliations of interface updates from sub-systems to the financial ledger.

Agreed Financial Regulations, Contract Standing Orders, Whistle-blowing policy, Anti-Money Laundering policies and Codes of Conduct for officers and members are in place.

Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements.

Appropriate arrangements are operated to deter and detect fraud and investigations are routinely undertaken.

The Internal **Audit Annual Audit Plan** is developed to provide reasonable assurance that appropriate internal control arrangements are in place, and are operating effectively. This includes internal controls within general ledger and sub systems, such as access controls, segregation of duties, and the application of the scheme of delegation for approval of transactions, and over-arching controls such as reconciliations. No areas where there is a potential for override of controls, or inappropriate influence over the financial reporting process, have been identified.

As part of statutory requirements, the Head of Internal Audit is required to give an opinion on the internal control framework and systems to manage risk. This opinion for 2020/21 has been drafted for inclusion in the Annual Governance Statement in the accounts. The draft opinion identified no significant weaknesses or failures in relation to risks of material mis-statement in the financial statements due to fraud.

Internal Audit's conclusions support the Chief Executive and Leader of the Council in certifying the Annual Governance Statement.

Officers with responsibility for the preparation of the financial statements are professionally qualified accountants with many years' experience, including the preparation and review of accounting estimates. Working papers supporting the accounts are subject to review and sign off by other finance officers. All material accounting estimates are subject to discussion and agreement with the Head of Finance.

Officers undertake training and review emerging guidance in relation to asset valuations and pension accounting, and ensure estimates are aligned to the guidance.

Finance officers undertake regular monitoring of financial performance and prepare forecasts of future outcomes, specifically with regards to cash-flows and delivery of a balanced revenue budget for future years, through the medium-term financial planning and capital strategy processes; all of which inform the council's view of going concern. Any significant risks or issues would immediately be escalated to the Corporate Leadership Team.

During accounts preparation, previous years accounts are reviewed, and emerging issues discussed amongst the finance team. Items potentially requiring accounting estimates are identified, and included in the working paper supporting Note 2 , the 'Estimation uncertainty' disclosure.

Risks of material mis-statement in the accounts are quantified through undertaking sensitivity analysis of each area of estimation to identify the estimates with the potential to lead to material mis-statement.

The valuations identified as requiring key accounting estimates noted in 1) above are provided by 'expert' valuers. The expert valuers are bound by professional standards as members of their professional bodies (RICS and the Institute of Actuaries), and follow relevant professional guidance, such as the RICS Red Book.

Council finance officers are not experts, but review the methods, assumptions and source data set out in the valuers service level agreements and output reports as being used by the experts for reasonableness, including consistency with previous years.