

# North Somerset Council

## Report to the Audit Committee

**Date of Meeting: 22 September 2022**

**Subject of Report: Statement of Accounts 2021-22**

**Town or Parish: All**

**Officer/Member Presenting: Steve Ballard, Principal Accountant**

**Key Decision: No**

### Recommendations

1. The Audit Committee is requested to:
  - a. take note of any adjustments to the financial statements set out in the external auditor's report;
  - b. consider the matter(s) raised in the Annual Governance Statement;
  - c. delegate approval of the draft letter of representation to the Chair of the Audit Committee; and
2. That subject to any comments under 1 above, the Audit Committee:
  - a. approve the Statement of Accounts for 2021/22, 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 2021/22 as representing a 'true and fair view' of the financial position as at 31 March 2022, 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 7 July 2022. The audit of the Accounts is on-going. The latest revised Statement of Accounts for 2021/22 are attached at **Appendix A**.
2. These revised accounts reflect the adjustments agreed with Grant Thornton during the course of the audit up to 9 September 2022, 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 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 and reported through to Members.
4. The Accounts and Audit Regulations 2022 require the accounts to be formally approved and published by 30 November 2022. The next Audit Committee is due to take place on 24 November 2022.
5. In order to complete the audit process on the most timely basis possible, we request that the Audit Committee delegate authority to approve the Letter of Representation to the Chair of the Audit Committee, and to approve the revised Statement of Accounts for 2022/22, subject to any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing.
6. Under the Code of Audit Practice the results of the external auditor's work on the Council's Value for Money arrangements will be reported in the Auditor's Annual Report, due to be reported to the Council by the end of December 2022.

### **Annual Governance Statement**

7. 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 2021/22 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 during 2021/22. The Statement continues to reflect the current position at September 2022.

### **Policy**

8. 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**

9. The draft Statement of Accounts for 2021/22 was approved by the Director of Corporate Services and published on the Council's website, on 7 July 2022.
10. 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.

11. Members of the Audit Committee attended a training session 'A Councillors' Guide to Understanding your Council's Financial Reporting Requirements' provided by CIPFA in July 2022.
12. Audit Committee members also attended an informal workshop on 12 September 2022, on the Narrative Report and core financial statements. The Chair provided officers with feedback from members of the committee in advance of the session, along with a series of detailed questions or areas that they would like to focus on, so that officers were able to review and prepare a more focused workshop session.
13. The workshop aimed to assist members in undertaking their core duties in relation to the review and approval of the Council's annual statement of accounts. Members and officers discussed potential amendments to the content and format of the Narrative Report and financial statements, either before the accounts are finalised in 2021/22, or in preparing the draft statements for 2021/22.
14. 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.
15. 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 2021/22 (The Code).
16. The Council's current revised Statement of Accounts for 2021/22, subject to completion of the audit process, is attached at Appendix A.. These revised accounts reflect the adjustments agreed with Grant Thornton during the course of the audit up to 9 September 2022, 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.
17. 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 Director of Corporate Services and the Chair of Audit Committee. At the time of this report, the auditors have yet to finalise the wording of the assurances that they require in this letter.
18. Once the wording of the letter is finalised, in order to complete the audit process on the most timely basis possible, we request that the Audit Committee delegate authority to approve the Letter of Representation to the external auditors, to the Chair of the Audit Committee
19. We request that the Audit Committee approve the revised Statement of Accounts for 2022/22, subject to, any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing.
20. 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 B**.

## **Annual Governance Statement**

21. The Council's Annual Governance Statement has been published within the draft Statement of Accounts, and is a declaration of assurance.
22. 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.
23. 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 2022, prior to inclusion within the draft statement of accounts in July 2022.
24. The AGS highlights key risks to the Council identified in the previous and current year, and sets out the high level mitigating actions that the Council had taken to address these significant issues.
25. At the Audit Committee informal workshop on 12 September 2022, officers agreed that member feedback and questions on the draft Annual Governance Statement would be passed to the Head of Audit and Assurance for consideration and further discussion with members. It is currently expected that any changes in the presentation of the AGS agreed will be taken into account in the preparation of the 2022/23 AGS, rather than the 2021/22 AGS amended.
26. The Audit Committee is requested to consider the matters raised in the Annual Governance Statement.

## **Consultation**

27. 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.
28. 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**

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

## **Legal Powers and Implications**

30. The annual Accounts and the Governance Statement have been prepared in accordance with all relevant legislation, which is detailed throughout the report.
31. 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.
32. 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.
33. 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:
34. 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.
35. 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.
36. 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**

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

## **Risk Management**

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

39. Failure to comply would result in non-compliance of statute (notably approval of the accounts by 30 November 2022), and leave the Council open to criticism by external audit and other external organisations.

## **Equality Implications**

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

41. As highlighted at the Accounts Update report, reported to the April 2022 Audit Committee, the financial report presented to members, and for external audit review, 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**

42. 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.

43. 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**

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

## **Author:**

Melanie Watts, Head of Finance                      Tel: 01934 634618  
[melanie.watts@n-somerset.gov.uk](mailto:melanie.watts@n-somerset.gov.uk)

Steve Ballard, Principal Accountant (Systems & Closure)      T: 01275 884037  
[steve.ballard@n-somerset.gov.uk](mailto:steve.ballard@n-somerset.gov.uk)

## **Appendices:**

Appendix A Revised draft Statement of Accounts 2021/22, including amendments to date, but excluding the draft audit opinion

Appendix B – 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 2021/22 – Draft published 7 July 2022  
Audit Committee - Accounts workshop - 12 September 2022

## **Appendix B**

### **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 2021/22 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 misstatement 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 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.