

	<b>Finance and Audit Scrutiny Committee 30 August 2017</b>	<b>Agenda Item No. 4</b>
<b>Title</b>	Statement of Accounts and Audit Findings Report 2016/17	
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<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	27 July 2016: Budget Review to 30 June 2016  28 September 2016: Fees and Charges 2017/18  2 November 2016: Budget Review to 30 September 2016  30 November 2016: General Fund Base Budgets latest 2016/17 and Original 2017/18  30 November 2016: Housing Revenue Account Base Budgets latest 2016/17 and Original 2017/18  8 February 2017: GF Budget 2017/18 And Council Tax – Revenue & Capital  HRA Budget 2017/18 And Rents  23 February 2017: Formal Council Tax Resolution  25 July 2017: Statement of Accounts  26 July 2017: Final Accounts 2016/17	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	
<b>Equality Impact Assessment Undertaken</b>	No (This Report is a matter of fact)

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	18/8/2017	Andrew Jones
Head of Service	18/8/2017	Mike Snow
CMT	18/8/2017	
Section 151 Officer	18/8/2017	Mike Snow
Monitoring Officer	18/8/2017	Andrew Jones
Finance	18/8/2017	Report from Finance
Portfolio Holder(s)	18/8/2017	Peter Whiting
<b>Consultation &amp; Community Engagement</b>		
Not Applicable		
<b>Final Decision?</b>		Yes
<b>Suggested next steps (if not final decision please set out below)</b>		

## 1. **Summary**

- 1.1 The 2016/17 Accounts have been closed, audited and are due to be made available on the Council's Website after the signed Audit Certificate is received. The Audited Statement of Accounts are presented to Finance and Audit Scrutiny Committee for their approval.
- 1.2 A report was presented to the Committee with the intention of their being able to sign off the Accounts before the end of July, the new deadline to be applicable from 2017/18 Accounts. However, the Audit had not been completed and the Committee received an interim Report. The Audit Findings Report from the external auditors in respect of the 2016/17 audit is now presented alongside this report.

## 2. **Recommendation**

- 2.1 It is recommended that the Committee:-
  - a) Notes the 2016/17 Audit Findings Report.
  - b) Approves the letter of representation on behalf of the Council.
  - c) Approve the Audited Statement of Accounts.

## 3. **Reasons for the Recommendation**

- 3.1 As part of corporate governance, Members have an important role in overseeing the framework of internal control of the Council.
- 3.2 The Council's Constitution states that the Finance and Audit Scrutiny Committee will act as the Council's audit committee. In November 2016, the Constitution was updated so that this Committee will approve the Council's Statement of Accounts each year.
- 3.3 The audit of the accounts is now virtually complete, with the Audit Findings Report from the external auditors having been issued (attached). Consequently, Members are asked to approve both the letter of representation (attached) and the Audited Statement of Accounts.

## 4. **Policy Framework**

- 4.1 **Policy Framework** – The Final Accounts for 2016/17 represent a historic account of the financial performance for that year and, therefore, identifies how well, or otherwise, the Budget and Policy frameworks have been complied with
- 4.2 **Fit for the Future** – Any variations impacting on Fit For the Future projects will be incorporated into those projects. This report is looking into the previous year, only savings already achieved will be included in these figures.
- 4.3 **Impact Assessments** – The Council's Final Accounts cover the community throughout the District. It is a statement of fact and officers will have considered any impact when amending their budgets.

## **5. Budgetary Framework**

- 5.1 The Statement of Accounts 2016/17 (Appendix A) is a historic account of the financial performance of the year and shows comparison with the budget (where appropriate) for 2016/17 and with 2015/16.
- 5.2 The Final Accounts for 2016/17 represent a historic account of the financial performance for that year and, therefore, identifies how well, or otherwise, the Budget and Policy frameworks have been complied with. More details on the Council's overall performance, with details of the Revenue and Capital variations were discussed within the Final Accounts report on the 26 July Executive agenda.

## **6. Risks**

- 6.1 There have been numerous risks throughout the process to close the accounts and produce the Statement of Account, with Officers maintaining a Risk Register to monitor these. Approval of the Statements is the final stage prior to publication.
- 6.2 Despite mitigation, some risks materialised and mitigation measures were not sufficient, namely there being errors in the Accounts and the Auditors were unable to complete their audit in time for the July Committee Meeting.
- 6.3 The Risk Register will be reviewed and mitigation measures increased for the 2017/18 closure.

## **7. Alternative Option(s) considered**

- 7.1 No alternative options are proposed.

## **8. Background**

### **8.1 The Statements**

- 8.1.1 The changes required to the Statement of Accounts in line with the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" ("the Code") were included within the report to the Committee within the July report.
- 8.1.2 The Annual Governance Statement is published with the Statement of Accounts. This has already been approved by this Committee.

### **8.2 Audit Findings Report**

- 8.2.1 As detailed in the attached Audit Findings Report (AFR) from the External Auditors, the audit of the 2016/17 Accounts is substantially complete. Some of the main issues coming out of this report are discussed below.
- 8.2.2 **Adjustments to Accounts**  
As detailed on page 20 of the AFR the most significant adjustment made to the accounts was in respect of creditor and debtor balances, where an item was included in the debtor balance which should have been included in the creditor balance. Whilst the figure was significant, it does not have an overall impact on the Council's financial standing as shown within the Balance Sheet.

Various other minor adjustments were made to the Accounts, these ranged from wording required to the notes within the Statements to grammatical changes.

### 8.2.3 Unadjusted Misstatements

Page 21 of the AFR details the items that the auditors have found for which it is proposed not to adjust the 2016/17 Accounts. These 4 items are discussed below:-

1. £159k over-statement of the housing stock. Taken in context of the overall valuation of the stock of over £350m, it is not considered that this variance is significant, especially given that the valuation does vary each year. The valuations used are reviewed annually for each years' accounts.
2. £191k Creditor balances for NNDR. This goes back to the first year of business rate retention, 2013/14, and has only now been raised. This will be adjusted in 2017/18 and, due to the requirements of business rate retention accounting, the Council's share of this will impact upon the Business Rate Volatility Reserve in 2018/19.
3. £15k legacy balance. Again, this balance has been on the accounts for several years. It is intended that this balance will be utilised in 2017/18.
4. £481k investment properties valuation overstated. Last year, the Council had all of its Investment Properties revalued as part of the rolling cycle. Unfortunately the Council's Accounting Policy had not been updated to reflect IFRS 13, introduced in January 2013, which required them to be revalued annually. This only came to light during this year's audit. Officers then had the properties revalued in July to demonstrate the impact was not material. With investment properties valued at over £11m, and due to be re-valued annually, it is not proposed to adjust in 2016/17.

The gross total of these unadjusted misstatements is £846k. However, it will be noted, as most are book valuations, the real impact on the Council's overall finances is not deemed to be significant.

8.2.4 From 2017/18, the Accounts and Audit Regulations require that the accounts are produced, audited and signed off by 31 July. The 2016/17 Account were piloted to seek to meet the 31 July date. As reported previously, this date has been narrowly missed, with the auditors having stated that they should have been able to sign off by early August.

8.2.5 Given the target was to reduce the overall period for closure and audit by a third (6 months down to 4 months), the good work that both the accountants and auditors have done should be recognised in achieving an earlier closedown for 2016/17, even though the target date was not achieved. Most local authorities are understood to have been seeking to similarly pilot the early closedown, with many having similarly not fully achieved this for 2016/17.

8.2.6 The AFR highlights some of the issues which have impacted upon the audit not being completed by 31 July. These include:-

Working papers.

Great endeavours have continued to be made to make these as clear and understandable in electronic formats to the auditors as possible. Whilst

significant strides have been made in recent years, it is acknowledged that some improvements are still required. The accountants and auditors are working closely to ensure further improvements can be made, and are optimistic that this will be possible.

#### Journals.

Last year the auditors reported that they had problems confirming the overall journal environment. Consequently much work progressed, in discussion with the auditors to produce a comprehensive listing. In undertaking the audit, the auditors reported that the new report did not fully satisfy their requirements. Consequently, further work is required to satisfy this requirement for the future.

#### 8.2.7 Action Plan

The AFR includes a number of recommendations as set out in their action plan. These are still to be discussed in detail with the external auditors. This has not been possible yet due to the concentration of work on closure and the audit, and the fact that this has been over the main holiday period. It is anticipated that the Accountants and Auditors will meet in September to ensure all are clear of the actions required ahead of the 2017/18 Accounts process. The Action Plan is included at the end of this report, with the initial responses included, although these may change, subject to the outcome of these planned discussions. The progress on achieving the Action Plan will be monitored at future team and one to one meetings.

#### 8.2.8 Value for Money

Based on the work the auditors performed they have concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

<b>Rec no.</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management response</b>	<b>Implementation date and responsibility</b>
<b>1</b>	The reporting mechanism available for journals should be further reviewed to make it easier to extract a complete journal listing.	Medium	Further discussions on-going with auditors to agreement requirements with bespoke report likely to be commissioned from software supplier.	31 December 2017 Principal Accountant (Systems)
<b>2</b>	Officers should consider how they can provide greater evidence of challenge of the work of experts, particularly in relation to material estimates such as the asset valuation and the valuation of pension liabilities.	Low	When the relevant valuation from experts are received (e.g. from valuers and actuaries), these will be subject to scrutiny and challenge.	31 March 2018 Strategic Finance Manager
<b>3</b>	Finance staff should review how the working papers to support the financial statements are produced and filed, so that they are easy to locate and understand by finance staff who have not been involved in the accounts production process. A quality assurance arrangement should be put in place for all working papers produced which should be appropriately evidenced.	Medium	To be discussed further with accountants and auditors, with examples of good practice being sought. Greater quality assurance will be incorporated, this will have to be included in the overall closure timetable	31 March 2018 Strategic Finance Manager
<b>4</b>	Further work should be undertaken on de-cluttering, looking to eliminate non material notes and streamline the wording so that it is clear and concise.	Medium	Given the work that has happened on de-cluttering, discussions to be undertaken with auditors to ascertain where further de-cluttering is possible and relevant.	31 March 2018 Strategic Finance Manager
<b>5</b>	Officers should review year end processes and identify areas where they could be streamlined or undertaken at different times in the year. In particular, where could the accounts rely on greater use of estimates and does the financial reporting	High	Full review of year end processes to commence in September, with discussions between auditors/accountants.	31 March 2018 Strategic Finance Manager

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	system provide the necessary reports to enable an efficient close down.			
<b>6</b>	The evidence base to demonstrate that assets are investments properties should be improved, with clear links to the asset management strategy of the authority.	Medium	This issue was raised last year. Delays with the new Asset Management Plan mean this has not progressed as far as intended. This was raised with the auditors ahead of the year end, with the auditors content to adopt the same approach as for 2015/16. Work is now understood to be on-going on producing the new Asset Management Plan (Deputy Chief Executive-BH).	31 March 2018 Principal Accountant (Capital)
<b>7</b>	As officers work on streamlining the reporting process in response to the recent peer review, consideration should be given as to whether more integrated reporting of savings targets and plans would be appropriate.	Medium	Following discussion with auditors, it will be considered by the HoF and CMT as to how improvements can be made.	31 December 2017 Head of Finance