

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Approval for Publication of the 2014/15 Annual Governance Statement and the Annual Financial Report
Meeting & Date:	Corporate Governance Panel – 16 th September 2015
Executive Portfolio:	Executive Councillor for Resources: Jonathan Gray
Report by:	Head of Resources: Clive Mason
Ward(s) affected:	All Wards

Executive Summary:

The Council is required by statute to produce both an Annual Governance Statement and an Annual Financial Report. Both of these documents are produced in line with statutory regulation and are required to be approved by “those charged with governance” and published by the 30th September.

In order to approve the accounts the Council must:

- Consider the “draft” Auditors Report (Section 3) which comments on the auditor’s findings on the Annual Financial Report and their view on value for money. Both the Annual Financial Report and the Value for Money position of the Council are expected to receive an unqualified audit opinion.
- Approve the Annual Governance Statement (Section 4) which includes some significant areas for improvement; including reporting arrangements for shared services and project management practices. Where appropriate there are actions to be taken.
- Approve the Letter of Representation (Section 5)
- Approve the Annual Financial Report and authorise the Panel’s Chairman to sign them on behalf of the Council (Section 6)

Provision is made for the audit fees within existing budgets.

Recommendation(s):

It is recommended that the Panel:

1. Receives the Auditor’s Draft ISA 260 report (Appendix A).
2. In principal, approves the Annual Governance Statement (Appendix B) and authorises the Executive Leader and Managing Director to sign the Statement on behalf of the Council, once the External Auditors have confirmed that the Annual Governance Statement will not be qualified.

3. In principal, approves the Letter of Representation (Appendix C) and authorises the Head of Resources to sign it on behalf of the Council, once the External Auditor had confirmed that both the Annual Governance Statement and the Annual Financial Report will not be qualified.
4. In principal, approves the Annual Financial Report (Appendix D) and authorises the Chairman of the Panel to sign the accounts on behalf of the Council once the external auditors have confirmed that the Annual Financial Report will not be qualified.

1. PURPOSE

- 1.1 To complete the processes for finalising and publishing the Council's Annual Governance Statement (AGS) and Annual Financial Report (AFR) for 2014/15.

2. BACKGROUND

- 2.1 The Panel is designated as "those charged with governance" and consequently it is required to approve both the AGS and AFR prior to publication by the statutory deadline of the 30th September. To do this the Panel needs to follow the stages in the order shown in this report.

- 2.2 At the accounts clearance meeting held on the 3rd September between the External Auditor and the Head of Resources, the External Auditor noted that as a consequence of the Corporate Governance Panel (CGP) meeting being held a week earlier than in previous years, he had some doubt that the final validation checks of both the AGS and the AFR would be complete by the date of the meeting. Consequently the Panel is asked to agree, in principal:

- i. both the AGS and the AFR, as well as the Letter of Representation, and
- ii. following confirmation by the External Auditor (deadline of the 23rd September) that both documents are unqualified, delegate authority to the:
 - Executive Leader and the Managing Director to sign the AGS,
 - Head of Resources to sign the Letter of Representation, and
 - For the Chairman of CGP to sign the AFR,

on behalf of the Council.

3. RECEIVING THE DRAFT AUDITORS REPORT (ISA 260 REPORT)

- 3.1 The draft ISA 260 that will be presented to the meeting by the Council's External Auditors, PricewaterhouseCoopers LLP (PwC) is attached as Appendix A.

- 3.2 At the time of drafting this report, there are a few areas of audit work that remain outstanding, these are shown on page 2 of **Appendix A** and are summarised below:

- Financial controls e.g. Journals.
- Some of the disclosure notes to the accounts (including Related Party Transactions).
- Asset Verification.
- Testing of the Council Tax Support Scheme and Housing Benefit returns.
- Finalising the review of Value for Money and the AGS.
- PwC's internal review procedures.

- 3.3 Also highlighted in yellow within the draft ISA 260 are some detailed comments from the external audit that members may wish to consider.

- 3.4 It should be noted that at this time the External Auditor does not anticipate that a material issue will arise that will affect the issue of an unqualified audit opinion in respect of both the AGS and the AFR.

3.5 There are 5 issues raised by the Auditors within the draft ISA 260 report in respect of the AFR. However, they are minor in nature and the details of these adjustments and the management action is shown in **Table 1** below:

Issues & Misstatements raised by the External Audit in respect of the 2014/15 Annual Financial Report		Table 1
Description of Issue & Misstatement	Amount £'000	Management Action
ACCOUNTING POLICIES		
<p>Property, Plant and Equipment</p> <p>The depreciation policy in respect of Property, Plant and Equipment additions in the year of purchase should state that depreciation is not charged in the first year after acquisition or enhancement.</p>	Nil	<p>The Accounting Policies for 2015/16 will be amended.</p> <p>There is no impact on the reported general fund, earmarked reserves or non-cash balances.</p>
INTERNAL CONTROL		
<p>No formal authorisation process for journals</p> <p>The current policy of journal review is that any journals over £0.850m that are raised by the junior accounting team are reviewed. No other review is carried out.</p>	Nil	<p>As noted, where an accountant below Principal Accountant level generates a journal of more than £850,000, this is reviewed by either a Principal Accountant or the Accountancy Manager (this does not apply to "interface" journals).</p> <p>For journals below £850,000 that are produced by an accountant below Principal Accountant, a new process will be introduced whereby a random 10% sample of journals will be reviewed by either a Principal Accountant or the Accountancy Manager.</p>
<p>Bank reconciliations</p> <p>The authority is in the process of rectifying historic reconciling items on the bank reconciliations, however, there are still a number of reconciling items that date back a number of years.</p>	Nil	<p>With regard to historic balances within the bank reconciliation, these have been removed, and were removed in Period 13 of 2014/15.</p>

Furthermore, there is no evidence that the bank reconciliations are reviewed.	Nil	All bank reconciliations from September 2015 onwards will be reviewed by the Accountancy Manager.
No formal authorisation process for fixed asset disposals The authority does not have any formal process for reviewing or authorising fixed asset disposals.	Nil	A formal Disposals and Acquisitions Policy: Land and Property was approved by Cabinet on Thursday 18 th June 2015.

3.6 In addition to reviewing the AFR, the Auditors are required to give a view on Value for Money within the Council. The Auditors anticipate an unqualified opinion in respect of the Value for Money conclusion.

3.7 The enclosed draft ISA 260 report was only received by the Council on 5th September, following the clearance of all outstanding issues a final ISA 260 will be circulated to all members of CGP. Accompanying the final ISA 260 will be a note confirming the changes between the draft ISA 260 that is attached as Appendix A and the final ISA 260.

4. APPROVE THE ANNUAL GOVERNANCE STATEMENT

4.1 The Panel, on behalf of the Council is required to review once a year the effectiveness of its system of internal control and following that review, approve the AGS. The AGS will be published alongside the AFR and is shown at **Appendix B**.

4.2 The Panel held an information meeting to discuss the evidence supporting the Code of Corporate Governance and identify significant areas for improvement. A copy of the draft AGS has been circulated to all Panel members and their comments invited. This led to a small number of minor changes being made.

4.3 The governance statement includes two significant areas for improvement.

- Develop robust and effective reporting arrangements for shared services.
- Improve project management practices including officer compliance with the project management toolkit.

4.4 These two issues notwithstanding, the governance arrangements and the internal control environment are considered to be operating effectively.

4.5 The Panel is asked to agree, in principal the draft AGS and once the External Auditor has confirmed that the AGS is unqualified, that the Executive Leader and the Managing Director are then authorised to sign on behalf of the Council.

5. APPROVE THE LETTER OF REPRESENTATION

- 5.1 Each year a letter has to be given to the Auditor by the Council which explains what the Council has done to ensure its financial records are accurate; a draft of the letter is attached as **Appendix C**. It is “best practice” for the Panel to approve the content of this letter and then authorise the Head of Resources to sign it on behalf of the Council. The outstanding items are highlighted in yellow.
- 5.2 The Panel is asked to agree, in principal the draft letter and once the External Auditor has confirmed that both the AGS and AFR are unqualified, that the Head of Resources is then authorised to sign on behalf of the Council.

6. APPROVE THE ANNUAL FINANCIAL REPORT

- 6.1 The Council is required to produce and approve by the 30th June the AFR, which incorporates the Statement of Accounts. Then by the 30th September “those charged with governance” are required to approve and the Council is required to publish the AFR; a copy is attached at **Appendix D**.
- 6.2 The Panel is asked to agree, in principal the draft AFR, which includes the Statement of Accounts. Once the External Auditor has confirmed that the AFR is unqualified, then the Chairman of CGP will sign on behalf of the Council.
- 6.3 The issues that have been raised by the Auditor in respect of the AFR are detailed within paragraph 3. If there are any further changes subsequent to the issuing of this report, further commentary will be included in the note referred to in paragraph 3.7.

7. COMMENTS OF OVERVIEW & SCRUTINY PANEL

- 7.1 This report is not reviewed by Overview & Scrutiny.

8. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

- 8.1 Paragraph 3 above outlines the audit recommendations and the associated management actions to address these recommendations.

9. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 9.1 Actions required and applicable timescales for implementation are noted above in paragraph 3 above.

10. LINK TO THE CORPORATE PLAN

- 10.1 Ensuring we are a customer focused and service led council – to become more business-like and efficient in the way we deliver services. The production of the AFR is also a statutory requirement.

11. CONSULTATION

- 11.1 In line with the Account and Audit regulations the AFR was available for inspection by the general public from the 6th July to the 30th July 2015. From the 12th August 2015, the general public were able to contact PwC with any queries regarding the AFR.

12. LEGAL IMPLICATIONS

12.1 There are no direct legal implications arising from this report.

13. RESOURCE IMPLICATIONS

13.1 As noted above in the report.

14. REASONS FOR THE RECOMMENDED DECISIONS

14.1 The process that has been followed in preparing both the AGS and the AFR has been thorough and in line with statutory regulations.

14.2 The significant issues that have been identified for inclusion within the AGS are referenced within the statement and are a reflection of the current situation.

14.3 Both the AGS and the AFR have been subject to external audit review by the Council's auditors, PricewaterhouseCoopers.

15. LIST OF APPENDICES INCLUDED


Appendix 1 – Auditor's Report – Draft ISA 260 Report
Appendix 2 – 2014/15 Annual Governance Statement
Appendix 3 – Draft Letter of Representation
Appendix 3 – 2014/15 Annual Financial Report

BACKGROUND PAPERS


Working papers are held in Resources.

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