

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Approval for Publication of the 2015/16 Annual Governance Statement and the Annual Financial Report
Meeting & Date:	Corporate Governance Committee – 27 th September 2016
Executive Portfolio:	Strategic Resources: Councillor Jonathan Gray (Deputy Executive Leader)
Report by:	Head of Resources: Clive Mason
Ward(s) affected:	All Wards

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 committee must:

- Consider the Auditors Report (Audit Results Report) (Paragraph 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 (Paragraph 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 (Paragraph 5)
- Approve the Annual Financial Report (Paragraph 6)

The costs of the audit can be met from within existing budgets.

Recommendation(s):

It is recommended that the Committee:

1. Receives the Auditor’s Audit Results Report. (**Annex A**).
2. Approve the Annual Governance Statement (**Annex B**) and authorises the Executive Leader and Managing Director to sign the Statement on behalf of the Council.
3. Approves the Letter of Representation (**Annex C**) and authorises the Head of Resources to sign it on behalf of the Council.
4. Approves the Annual Financial Report (**Annex D**) and authorises the Chairman of the Committee and Head of Resources to sign the accounts on behalf of the Council.

1. PURPOSE OF THE REPORT

- 1.1 To complete the processes for finalising and publishing the Council's Annual Governance Statement (AGS) and Annual Financial Report (AFR) for 2015/16.

2. BACKGROUND

- 2.1 The Corporate Governance Committee is designated as "those charged with governance" and consequently is required to approve both the AGS and AFR prior to publication by the statutory deadline of the 30th September. To do this the Committee needs to follow the stages in the order shown in this report.
- 2.2 At the time of writing the report the audit is not yet complete with the auditors having some final queries to resolve to enable them to approve the accounts. An up to date position will be reported at the Committee however the Auditors fully anticipate that the audit will be concluded and the auditors will be in a position to issue an unqualified audit opinion and Value for Money judgement.

3. RECEIVING THE AUDITORS REPORT (AUDIT RESULTS REPORT)

- 3.1 The Audit Results Report that will be presented to the meeting by the Council's external auditors, Ernst & Young LLP (EY) is attached as **Annex A**. The auditors will verbally update the committee at the meeting of any further changes since the issuing of the report on the 19th September. At this point the auditors were confident that an unqualified opinion and a value for money opinion that the Council have proper arrangements in place to achieve value for money.
- 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 10 of **Annex A** and are summarised below:
- Management representation letter
 - Subsequent events review
 - Pension liability valuation
 - Whole of government accounts
 - Value for money
 - Completion of audit procedures
 - Management review
 - Engagement partner review
- 3.3 Also highlighted in yellow within the draft Audit Results Report are some detailed comments from the external audit that members may wish to consider.
- 3.4 It should be noted that at the time of drafting this report 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 6 issues raised as "Other Matters" by the auditors within the draft Audit Results Report in respect of the AFR; there is the potential that the auditors will seek a variation to scale fee as a result of these issues. The details of these adjustments, and the management action is shown in **Table 1** below:

Other Matters	Table 1
Description of Issue	Management Response
Identifying, investigating and agreeing audit amendments to: <ol style="list-style-type: none"> 1. Cash Flow Statement 2. Investments 3. Property, Plant and Equipment 4. Non-Domestic Rates Appeals 	<p>Errors were found and subsequent amendments required which has resulted in some restatement of the primary statements and disclosure notes. Further details are in Table 3 below.</p>
Income Account Bank Reconciliation <ol style="list-style-type: none"> 5. The reconciliation between bank and general ledger shows an immaterial unreconciled difference. 	<p>There have been control weaknesses around the bank reconciliation process which the Council has addressed both before and during the course of the audit. New procedures are in place, with an automated process in development.</p>
Sample testing for short-term: <ol style="list-style-type: none"> 6. <i>debtors and creditors</i> 	<p>There have been issues from both the auditors and Council in getting this work completed as smoothly as would be hoped. There are lessons to be learnt which will be discussed with the auditors after the conclusion of the audit.</p>

3.6 There are 2 issues raised as “Control Themes” by the auditors within the draft Audit Results Report in respect of the AFR. The details of these issues and the management response are shown in **Table 2** below.

Control Themes	Table 2
Description of Issue	Management Response
1. Income Account Bank Reconciliation	<p>An immaterial unexplained difference appears in the final year end reconciliation. This is immaterial to the overall audit but is being worked through to ensure it is resolved in the current financial year. New controls are now in place to ensure the regular and timely reconciliation of all bank accounts and, in addition, a project has been initiated with ICT to improve the data flowing through the interfaces to increase the ease of reconciling bank statement and ledger.</p> <p>When the Head of Resources (as the Responsible Financial Officer) is satisfied with the amount, this will be agreed with the external auditor and reported to this committee.</p>

	Members should note that the required adjustment will be a credit to the Councils accounts (i.e. additional income).
2. Property, Plant and Equipment Valuation The valuation figure was not reconciled to the figure provided by the valuer.	Weaknesses in the working paper controls were identified during the audit and these have now been addressed to ensure they are picked up in the future.

3.7 There are 6 issues raised as “Corrected Audit Differences”, where an issue of greater than £1.73m has been identified, these are shown in table 3 below. Please note that none of these changes has had an impact on cash-backed usable reserves.

Corrected Audit Differences	Table 3
Description of Issue	Management Responses
1. Property Plant and Equipment The valuation total was not reconciled to the figure provided by the valuer.	The overall movement in the balance sheet is against the PPE value and the revaluation reserve and relates to an error in 2013/14. This has been corrected and has no impact on the usable reserves of the Council.
2. Short-term Investments (Balance Sheet and Cash Flow Statement) Recategorisation of short-term investments.	This is a re-classification correction where a number of the Council’s investments are classified as cash equivalent assets, as per the accounting standards. A prior year adjustment has also been made for these.
3. Cash-Flow Statement – Reclassification of items on the face of the statement Three items REFCUS, MRP and direct revenue financing were incorrectly categorised	This has no impact on the overall cash flow statement but reclassifies between lines within the statement.
4. Short-term creditors Overstatement of local authority creditors and understatement of other entities and individuals.	The adjustment does not change the overall creditors balance on the balance sheet but has resulted in a change in the categorisation within the Creditors disclosure note (18).
5. Collection Fund Income and Expenditure Statement The recalculation of the appeals provision.	An incorrect version of the 2014/15 working paper was picked up resulting in an error coming through to the 2015/16 calculation. On identification of this error the Council re-created the 2014/15 closing working

	<p>paper and amended the final 2015/16 closing position. The impact of this on the Council's accounts is a £1.2m reduction in provisions and a corresponding increase in unusable reserves.</p>
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3.8 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.

4. APPROVE THE ANNUAL GOVERNANCE STATEMENT

4.1 The Committee, 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 **Annex B**.

4.2 A copy of the draft AGS has been circulated to all Committee 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.

- The continual development of effective governance and reporting arrangements for shared services.
- The need to improve debt management.

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

4.5 The Committee is asked to agree the draft AGS.

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 **Annex C**. It is "best practice" for the Committee to approve the content of this letter and then authorise the Head of Resources to sign it on behalf of the Council.

5.2 The Committee is asked to agree 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 Draft 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 **Annex D**.

6.2 The Committee is asked to approve the AFR, which includes the Statement of Accounts. Once the External Auditor has confirmed that the AFR is unqualified, then the Chairman of CGC 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 section 3.

7. KEY IMPACTS & RISKS - HOW WILL THEY BE ADDRESSED?

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

8. WHAT ACTIONS WILL BE TAKEN

8.1 Actions required for implementation are noted above in paragraph 3 above.

9. LINK TO THE CORPORATE PLAN

9.1 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.

10. CONSULTATION

10.1 In line with the Account and Audit regulations the AFR was available for inspection by the general public from the 3rd June to the 14th July 2016.

11. LEGAL IMPLICATIONS

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

12. RESOURCE IMPLICATIONS

12.1 As noted in the report above.

13. REASONS FOR THE RECOMMENDED DECISIONS

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

13.2 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.

13.3 Both the AGS and the AFR have been subject to external audit review by the Council's auditors, Ernst and Young LLP.

14. LIST OF APPENDICES INCLUDED


Annex A – Auditor's Report – Audit Results Report
Annex B – 2015/16 Annual Governance Statement
Annex C - Draft Letter of Representation
Annex D – 2015/16 Annual Financial Report

BACKGROUND PAPERS


Working papers are held in Resources.

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