

## HUNTINGDONSHIRE DISTRICT COUNCIL

<b>Title/Subject Matter:</b>	Approval for Publication of the 2016/17 Annual Governance Statement and the Annual Financial Report
<b>Meeting/Date:</b>	Corporate Governance Committee – 13 September 2017
<b>Executive Portfolio:</b>	Strategic Resources: Councillor J A Gray (Deputy Executive Leader)
<b>Report by:</b>	Head of Resources
<b>Wards affected:</b>	All Wards

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### 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 regulations and are required to be approved by 'those charged with governance' and published by 30 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 Finance Report and their view on Value for Money. Both the Annual Finance 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 areas of improvement, including:
  - the continued development of effective governance and reporting arrangements for shared services,
  - introducing the replacement financial management system,
  - ensuring better outcomes are delivered to customers by improving the way in which complaints are recorded, investigated and outcomes reported back to the complainant and
  - ensuring robust safeguarding procedures
- Approve the Letter of Representation (paragraph 5)
- Approve the Annual Financial Report (paragraph 6)

### Recommendations:

1. Receives the Auditors 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 (as Section 151 officer) 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 (as Section 151 officer) to sign the accounts on behalf of the Council.

## 10. PURPOSE OF THE REPORT

- 1.1 To complete the processes for finalising and publishing the Council's Annual Governance Statement (AGS) and Annual Finance Report (AFR) for 2016/17.

## 11. BACKGROUND

- 1.2 The Corporate Governance Committee 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 30 September. To do this the Committee needs to follow the stages in the order shown in the report.

## 3 RECEIVING THE AUDITORS REPORT (AUDIT RESULTS REPORT)

- 3.1 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.
- 3.2 The Audit Results Report will be presented to the meeting by the auditors and a draft is attached at **Annex A**. The auditors will verbally update the Committee at the meeting of any further changes since issuing of the report on 5 September.
- 3.3 There are 4 issues raised as 'Control Observations' by the auditors within the Audit Results Report in respect of the AFR, there is potential that the auditors will seek a variation to scale fee as a result of these issues. The details of these observations and the management comments are shown in **Table 1** below:

Observation	Management Comment
<p><b>1. Accounting records</b></p> <p>a. The working papers for debtors and creditors were not suitable for audit as they included movement of all transactions during the year rather than just the balances outstanding.</p> <p>b. Difficulties in mapping the general ledger data to its financial statements.</p>	<p>a. There have been issues getting this work completed in a more efficient way and we have not moved forward from the same issue last year. A thorough review of all working papers will be carried out in preparation for the 2017/18 Accounts.</p> <p>b. The mapping of the Councils ledger to the financial statements took longer than anticipated. The Council committed considerable resources to resolving this issue but the consequence of this was that the receipt of audit samples from the auditors was delayed. Improvements will be made to ensure that accounts closure knowledge is better shared amongst the closure team to ensure more consistent accounting treatment.</p>

	<p>Looking forward, with the implementation of the new FMS, the mapping will be checked and completed as part of the interim audit.</p>
<p><b>2. Timeliness of deliverables (audit queries)</b>  There were several occasions where the length of time between requesting an answer to an audit query and actually receiving it was longer than agreed.</p>	<p>The main reason for the delay was as a consequence of sorting out the mapping (1 above) and issues relating to both Income and Expenditure analysis, Debtors and Creditors and Leases working papers; this then had consequential impacts on establishing audit samples. Working papers will be comprehensively reviewed prior to, and during the closure of the 2017/18 accounts.</p>
<p><b>3. Reliance on key personnel</b>  There were occasions when staff were not available either through sickness or because the work had been completed by an external contractor</p>	<p>The Finance Team did have some sickness issues during the time the auditors were on site which caused some delay in responding to audit queries.</p> <p>Also, for the first time, an external contractor was used to complete a technical element of the closure process. As a consequence of funding mutually agreeable availability between the contractor, the Councils closure team and the auditors, some delay was encountered.</p> <p>Lessons have been learnt in that where sickness occurs immediate action will be taken to fill 'gaps' and clearer service specifications will be used in future when engaging accounts closure contractors.</p>
<p><b>4. Related parties</b>  The completeness check identified an amount that had not been disclosed.</p>	<p>Where the Council has an audit materiality level of £1.3m, this is not applicable to the testing related to Related Parties Transactions/Interests because this review is in respect of governance. It was established that one organisation had not been disclosed (circa £70k) and should have been. Working papers will be comprehensively reviewed prior to and during the closure of the 2017/18 accounts.</p>

3.3 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**.

4.1 A copy of the draft AGS has been previously circulated to all Committee members and no comments have been received.

4.2 The governance statement includes 4 significant areas for improvement:

- The continued development of effective governance and reporting arrangements for shared services.
- Introduce the replacement financial management system so that it is operational and available to use from December 2017.
- Ensure better outcomes are delivered to customers by improving that way in which complaints are recorded, investigated and outcomes reported back to the complainant.
- ensuring robust safeguarding procedures.

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

#### **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 to sign it on behalf of the Council.

#### **6. APPROVE THE ANNUAL FINANCIAL REPORT**

6.1 The Council is required to produce and approve by the 30 June the Draft AFR, which incorporates the Statement of Accounts. Then by 30 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 report will be signed 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 of this report and Section 7 of the Auditors' Results Report.

## **7. KEY IMPACTS**

- 7.1 Paragraph 3 above outlines the control observations and the associated management comments.

## **8. LINK TO THE CORPORATE PLAN**

- 8.1 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.

## **9. CONSULTATION**

- 9.1 In line with the Account and Audit regulations the AFR was available for inspection from 6 July to 30 August 2017.

## **12. LEGAL IMPLICATIONS**

- 10.1 There are no direct legal implications arising from this report.

## **13. RESOURCE IMPLICATIONS**

- 11.1 There is a specific budget for the Audit Fees. However, due to the delays experienced by the auditors in the current year they will be seeking to agree an additional fee for the time and costs incurred. They estimate this will be similar to 2015/16 which was £8,999 and this additional cost will be found from within the service budget.

## **14. REASONS FOR THE RECOMMENDED DECISIONS**

- 12.1 The process that has been followed in preparing the AGS and the AFR has been thorough and in line with statutory regulations.
- 12.2 The issues that have been identified for inclusion within the AGS are referenced within the statement and are a reflection of the current situation.
- 12.3 Both the AGS and the AFR have been subject to external audit and review by the Council's auditors, Ernst and Young LLP.

## **15. LIST OF APPENDICES INCLUDED**

Annex A – Auditors Report – Audit Results Report  
Annex B – 2016/17 Annual Governance Statement  
Annex C – Draft Letter of Representation  
Annex D – 2016/17 Annual Financial Report

## **BACKGROUND PAPERS**

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