

AUDIT COMMITTEE
28 SEPTEMBER 2017
ANNUAL GOVERNANCE REPORT 2016/17

Report from: Phil Watts, Chief Finance Officer

Author: Jonathan Lloyd, Principal Accountant

Summary

This report considers the issues raised in the Council's External Auditor's Annual Governance Report, which incorporates the findings following the 2016/17 audit of the Statement of Accounts.

The Accounts and Audit Regulations 2015 require that the Audit Committee consider these issues prior to publication by 30 September 2017.

1. Budget and Policy Framework

- 1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated with the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report. All amendments to factual data have been made.
- 1.2 The Accounts and Audit Regulations 2015 require that the Audit Committee consider these issues prior to 30 September 2017.

2. Background

- 2.1 The draft Statement of Accounts for 2016/17 was considered and approved by this Committee on 29 June 2017. At that stage the accounts were subject to final verification and Members were advised that any proposed changes as a result of the audit would be reported at a later stage.
- 2.2 The audit of the 2016/17 accounts commenced early in June and together with the audits of various grant claims has continued through September. An objection to the 2015/16 accounts is still being investigated. The Auditor will update Audit Committee on progress of work relating to the objection at this meeting.

3. Auditors Report 2016/17

3.1 The Auditor's Annual Governance Report (AGR) is attached at Appendix 1 and contains the Auditor's review of:

- Financial Statements;
- Control Environment;
- Governance Reporting;
- Whole of Government Accounts (WGA);
- Use of Resources; and
- Associated appendices.

3.2 Management's response to the issues raised is included in the Appendix III of the AGR.

4. Financial Statements

4.1 The overview of the AGR states that, subject to satisfactory conclusion of outstanding work, an **unqualified** audit opinion will be issued in relation to the financial statements. However, the auditors are not able to issue an audit certificate until they have completed their work relating to the objection relating to the 2015/16 accounts regarding the Council's use of lender Option Borrower Option (LOBO) loans.

4.2 Accounting practices and financial reporting

4.2.1 Material misstatements: The Auditor found that properties constructed in a previous year for two Academies have been included as property plant and equipment. These properties had been included in previous year's balance sheet so correction was made by way of a prior period adjustment.

4.2.2 A number of disclosures relating to Officers Remuneration required correction.

4.2.3 Adjusted misstatements: There were a few non-trivial errors within the Statement of Accounts which have, for the most part, now been corrected.

4.2.4 Unadjusted audit differences: Auditors disagreed with the treatment of amounts relating to NDR appeals provision, bank balances relating to schools converted to academies, fees and charges relating to a prior year and the inclusion of developer contributions as a liability rather than as income.

4.3 Annual Governance Statement

4.3.1 The Auditor is satisfied that the Annual Governance Statement is consistent with the financial statements.

5. Use of Resources

5.1 The Auditor is required to satisfy himself that, in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

5.2 The Auditor anticipates issuing an unmodified opinion on the use of resources.

6. Management Representations Letter

- 6.1 To comply with regulations, the Chief Finance Officer of the local authority must provide the external auditors with a signed declaration which supports their work in relation to the audit of the annual accounts.
- 6.2 The Draft Management Representations Letter is attached at Appendix VI of the AGR and the Committee is required to consider the content of the letter in the context of the issues raised in this report. Once agreed, the letter will be submitted to the Auditor.

7. Audit Fees

- 7.1 The final audit fee is £151,639 consisting of £142,451 audit fees and £9,188 certification fees. These fees are in line with the report to this committee on 21 March 2017.

8. Financial and Legal Implications

- 8.1 The financial implications are contained within the body of the report.
- 8.2 Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.
- 8.3 The legal implications are set out in the body of the report.

9. Audit Completion

- 9.1 The Auditor has indicated that they will not be able to issue an audit certificate by 30 September 2017.

10. Risk Management

- 10.1 There is a risk around the outcome of the Auditor's investigation into the objection received in relation to the lawfulness of the decision to borrow monies through LOBO loans.

11. Recommendations

- 11.1 That the Audit Committee notes the issues raised and judgements made by the Auditor as presented in Appendix 1, and agrees the proposed response as set out at Appendix II to the External Auditor's Annual Report to the Audit Committee.
- 11.2 That the Audit Committee approves the Statement of Accounts (Appendix 2).
- 11.3 That the Audit Committee agrees the Management Representations Letter, attached at Appendix VI of the External Auditor's Annual Report to the Audit Committee.

Lead Officer contact:

Phil Watts: Chief Finance Officer T: 01634 332220

E: phil.watts@medway.gov.uk

Appendices

Appendix 1 – Audit Completion Report

Appendix 2 – Statement of Accounts

Background papers

Medway Council's Draft Statement of Accounts for 2016/2017

Report on Draft Statement of Accounts to this Committee 30 June 2016

<https://democracy.medway.gov.uk/mgConvert2PDF.aspx?ID=3767&T=10>

Addendum to Draft Statement of Accounts

<https://democracy.medway.gov.uk/mgConvert2Pdf.aspx?ID=10843&T=9>