

## **AUDIT COMMITTEE**

**30 JULY 2018**

### **AUDIT COMPLETION REPORT 2017/18 STATEMENT OF ACCOUNTS 2017/18**

Report from: Phil Watts, Chief Finance Officer

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#### **Summary**

This report considers the issues raised in the Council's External Auditor's Audit Completion Report, which incorporates the findings following the 2017/18 audit of the Statement of Accounts.

The Accounts and Audit Regulations 2015 require that the Audit Committee consider these issues prior to publication of the Statement of Accounts.

#### **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 by 31 July 2018.

#### **2. Background**

- 2.1 The draft Statement of Accounts for 2017/18 was published on the Medway Council website on 31 May 2018. At that stage the accounts were subject to final verification. The 2017/18 Statement of Accounts is attached at Appendix 2. Section C (the Independent Auditor's Report to Medway Council) is not yet available and will be circulated separately.
- 2.2 The audit of the 2017/18 accounts commenced early in June and together with the audits of various grant claims has continued through this month. 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 2017/18**

3.1 The Auditor's Audit Completion Report (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 II of the Audit Completion Report .

### **4. Financial Statements**

4.1 The Report states that, subject to satisfactory conclusion of outstanding work, an **unmodified** 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 Key Audit and Accounting Matters**

4.2.1 A number of errors were found during the course of the audit including matter relating to relating to the Cash Flow Statement, disclosure of exit packages, financial instruments, collection fund, and capital grants. Correcting amendments were made to the Statements. Further details can be found on page 14 et seq. of the Report.

4.2.2 Auditors review of property, plant and equipment (PPE) found some items which had been capitalised should have been treated as revenue expenditure funded from capital under statute (REFCUS). The Statements have not been amended for these items.

4.2.3 The auditors did not identify any fraud.

4.2.4 Internal audit reports were reviewed by BDO at the planning stage but did not identify any additional risks.

#### **4.3 Other Matters**

4.3.1 A number of amendments were made to the Narrative Report including those the auditor considered were required to explain inconsistencies with the financial statements.

4.3.2 The Auditor is satisfied that the Annual Governance Statement complies with relevant guidance.

### **5. Use of Resources**

5.1 The Auditor is required to satisfy himself that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

5.2 The Auditor has not identified any additional risks and reports on progress in ensuring financial sustainability.

## **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 Audit Completion Report 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. Financial and Legal Implications**

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

## **8. Audit Completion**

- 8.1 The Auditor has indicated that they will not be able to issue an audit certificate by 31 July 2018.

## **9. Risk Management**

- 9.1 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.

## **10. Recommendations**

- 10.1 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 Audit Completion Report.
- 10.2 That the Audit Committee approves the Statement of Accounts (Appendix 2).
- 10.3 That the Audit Committee agrees the Management Representations Letter, attached at Appendix VI of the External Auditor's Annual Report to the Audit Committee.

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### **Appendices**

Appendix 1 – Audit Completion Report

Appendix 2 – Statement of Accounts 2017/18

### **Background Papers:**

None