



Audit & Governance Committee
27 July 2015

**SURREY COUNTY COUNCIL: STATEMENT OF ACCOUNTS
2014/15 AND GRANT THORNTON AUDIT FINDINGS REPORT**

Purpose of the report:

To inform the Committee of the result of the external audit of the council's 2014/15 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Director of Finance.

Recommendations:

It is recommended that the Committee:

1. Approve the 2014/15 Statement of Accounts , as attached in Annex A, for publication on the council's website and in a limited number of hard copies;
2. Consider the contents of the 2014/15 Audit Findings Report in Annex B;
3. Agree the officer response to recommendations of the external auditor;
4. Note the Director of Finance's letter of representation, which is attached in Annex C;
5. Determine if any issues in the Audit Findings Report should be referred to the cabinet.

Introduction:

6. The Director of Finance has approved the statement of accounts for 2014/15 as presenting a true and fair view of the county council's financial position as at the 31 March 2015 and its income and expenditure for the year. The accounts are attached at Annex A to this report for Member debate and approval.
7. The auditor has provided a commentary and recommendations on the statement of accounts in their Audit Findings Report (attached as Annex B).

8. The auditor anticipates issuing an unqualified opinion on the financial statements and the Value for Money conclusion stating that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Statement of Accounts 2014/15
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9. The Local Audit and Accountability Act 2014 require the statement of accounts for 2014/15 to be published by 30 September, and that they are approved, prior to this date, by a non-executive committee of the local authority.
10. The presentation of these audited accounts to this Committee by the end of July, well in advance of the statutory deadline, represents a significant achievement for the Finance Service. It is the second year in a row the accounts have been presented by the end of July.
11. Under the Act it will be a requirement for local authorities to produce audited accounts by the end of July from 2017/18 onwards. This demonstrates that the council is well prepared to meet the new statutory requirements. It is the result of a number of years of continuous improvements in relation to the production of the Statement of Accounts and a strong working relationship with Grant Thornton, our external auditors. It has also resulted in audited summary accounts being included in the Annual Report for 2014/15 for the second year in a row.
12. The Director of Finance is responsible for the preparation of Surrey County Council's statement of accounts, the pension fund statement of accounts and the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code).
13. The Code is a very prescriptive document, and determines not only the accounting policies to follow, but also the form and content of the statement of accounts. The Code is based on International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board. Local authorities have a legal obligation to follow "proper accounting practice", this therefore means that compliance is mandatory.
14. In addition to the Code, the Service Reporting Code of Practice (SERCOP) prescribes the format and composition for reporting service income and expenditure in the Comprehensive Income and Expenditure Statement. This is designed to allow comparison of service expenditure and income between authorities.
15. Any significant departure from The Code or SERCOP will normally result in a qualified audit opinion.
16. Annex A presents the 2014/15 Statement of Accounts. Draft accounts were produced and presented for audit by the end of May 2015. Since then two amendments have been made as detailed below. These changes do not alter the Council's budget outturn position that was approved by the Cabinet in May and its reserves and balances remain as previously reported.

- Collection Fund Adjustment - 2014/15. There was a delay in figures being provided to the council from some borough and districts councils. Surrey County Council has to show in the comprehensive income and expenditure account its share of any surplus or deficit and its share of any debtors and creditors in its balance sheet in relation to both Council Tax and business rate collection. The delay in the receipt of this information meant that the accounting adjustment required to represent these amounts could not be audited until after the accounts had been submitted for audit.
 - Following guidance from CIPFA on schools accounting, the council determined that foundation schools should be recognised as an asset on the balance sheet for the first time in 2014/15. Accounting requirements mean that comparator figures for 2013/14 have to be reproduced on the same basis as the new accounting policy. In the initial restatement for 2013/14 it became apparent that three schools that were foundation schools in 2013/14 that had converted to academy status in 2014/15 were not included. Valuations for these schools were then included in the 2013/14 comparators and the schools were incorporated into the academy write off during 2014/15.
 - The three foundation schools had been brought on balance sheet by virtue of the council's control of the entities rather than legal ownership. Under current guidance, the statutory adjustment to apply the impairment charge to the capital adjustment account is not permitted for these assets and as a result should be charged to the general fund. The council has not applied this charge to the general fund in the statement of accounts as it would result in a double charge to the taxpayer in relation to these assets.
17. In addition, a number of small amendments for typographical errors and rounding differences were made and additional narrative has been added for clarification purposes.

2014/15 Audit Findings

18. The Audit Findings Report summarises the findings of the 2014/15 audit, which is now nearing completion. It includes the messages arising from the audit of the statement of accounts and the results of the external auditor's work undertaken to assess the council's arrangements to secure value for money in the use of resources.
19. The external auditor's 2014/15 report is presented in Annex B and sets out a summary of the work carried out during the audit of the accounts, the conclusions reached and recommendations.
20. At the beginning of the audit the auditors produce an audit plan, which was reported to this Committee in March 2015. The audit plan identified areas of significant risk of material misstatement. The audit findings report summarises the work completed in relation to this risk areas. The audit work undertaken has not identified any issues in respect of these areas.

21. The audit fee is in line with the planned fees and there was no unplanned work required.
22. The auditor is anticipating issuing an unqualified opinion on the financial statements. For the Value for Money opinion, the auditor states the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015, but based on the Ofsted inspection report of Children's Services has to include a qualification on an 'except for' basis to this opinion. There are a small number of items still to be signed off by the auditors before the final opinion can be issued.

Conclusions:

23. Following the changes included above, and the results of the audit, the accounts are now presented to this Committee for approval.

Financial and value for money implications

24. There are no direct financial implications of this report, all financial implications in the accounts have been made in line with the Code of Practice and any impact on the 2014/2015 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

25. There are no direct equalities implications of this report.

Risk Management Implications

26. There are no direct risk management implications of this report.

Next steps:

27. The statements of accounts will be published in line with the statutory deadline. The only changes made to the published version will be presentational, with the accounts typeset into a booklet style. A version of the statements will also be posted on the council's website, and again some of the formatting may change to ensure it complies with the council's accessibility standards.

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Sources/background papers:

Financial Outturn 2014/15 – Report to Cabinet 28 April 2015.

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 CIPFA

Service Expenditure Reporting Code of Practice 2014/15 - CIPFA