



Audit & Governance Committee
27 July 2017

Statement of Accounts 2016/17

Purpose of the report:

To inform the Committee of the result of the external audit of the council's 2016/17 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 2016/17 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 2016/17 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 2016/17 as presenting a true and fair view of the county council's financial position as at the 31 March 2017 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.

9. The Value for Money opinion has been qualified on an 'except for' basis. The auditor has stated the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources but has issued a qualification based on the issues highlighted in the Ofsted report on Children's Services in June 2015.

The Statement of Accounts 2016/17

10. The Local Audit and Accountability Act 2014 requires the Statement of Accounts for 2016/17 to be published by 30 September, and that they are approved, prior to this date, by a non-executive committee of the local authority.
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. The council has had the accounts approved before the end of July for a number of years now and is well placed to meet the new statutory requirement
12. This 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 also means that the financial information in the Annual Report for 2016/17 can be based on the audited financial accounts.
13. The Director of Finance is responsible for the preparation of Surrey County Council's single entity statement of accounts, the Surrey County Council group 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 2016/17 (the Code).
14. 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.
15. Any significant departure from The Code will normally result in a qualified audit opinion.

Accounting Changes 2016/17

16. The 2016/17 Code of Practice on Local Authority Accounting introduces a number of changes to the presentation of information on income and expenditure. The changes are as a result of a CIPFA review called 'Telling the Story' and they are designed to align the accounts with how the council reports its financial and performance information internally to management. There is now a greater link between the accounts and the budget monitoring outturn report and information is now presented in a format that local users of the accounts are more familiar with.
17. This change ends the requirement for the service analysis in the Comprehensive Income & Expenditure Statement (CIES) to be based on

the standardised service expenditure analysis in the Service Reporting Code of Practice (SeRCOP).

18. A new note called the Expenditure & Funding Analysis (Note 6) shows how the budget monitoring outturn position for a service reconciles to the net expenditure in the CIES.
19. Other new notes include one that shows income from customers by services (Note 6b) and another presents a subjective analysis of income and expenditure in the CIES (Note 7).
20. The changes to Infrastructure Asset, detailed in the Highways Network Asset report presented to the Audit & Governance Committee in September 2016 have been indefinitely postponed by CIPFA. There were concerns from auditors about centralised rates used to create valuations and whether the cost to authorities of implementing the changes outweighed the benefits. We will continue to keep this Committee informed of any developments in this area going forward.
21. Annex A presents the 2016/17 Statement of Accounts. Draft accounts were produced and presented for audit by the first week of June 2017. Since then three main audit findings have led to amendments to the draft accounts and these are detailed below. These changes do not alter the Council's budget outturn position that was approved by the Cabinet in April and its useable reserves and balances remain as previously reported.
 - Deferred Capital Receipt (£12.1m). An asset was sold in 2016/17 and under the contract agreement some consideration for the asset is due in 2017/18. In the draft accounts there were no entries to recognise the debtor. In the final accounts debtors have therefore increased by £12.1m and a deferred capital receipt reserve has been created as an unusable reserve to recognise the future capital receipt commitment. Once the money has been received it will be accounted for as a capital receipt and the debtor and deferred capital receipt will be removed from the accounts.
 - Disposal of an academy school (£7.7m). When schools convert to academy status, ownership of the school buildings transfer to the academy and they are removed from the council's balance sheet through a charge to the Financing & Investment Income & Expenditure line of the Comprehensive Income & Expenditure Statement. In this instance the conversion of one school was omitted from the draft accounts and the asset was still held on the balance sheet, this has now been amended.
 - Accumulated depreciation (£25.1m). For Property, Plant and Equipment (PPE) assets that were revalued in year, the accumulated depreciation written out on revaluation had been applied to the cost of the asset, rather than written out of the accumulated depreciation figure. Note 13 therefore overstated both accumulated depreciation and the cost of the asset. This has no impact on the net value of the assets and does not change the value of the

assets presented on the balance sheet. The opening balances on the PPE note also had to be adjusted by £35.0m as the 2015/16 figures presented accumulated depreciation in the same way as the 2016/17 draft accounts and the issue had not previously been identified

22. In addition, a number of smaller amendments were made to enhance disclosures, such as additional narrative for clarification purposes, or to correct typographical errors and rounding differences.

2016/17 Audit Findings

23. The Audit Findings Report summarises the findings of the 2016/17 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.
24. The external auditor's 2016/17 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.
25. At the beginning of the audit the auditors produce an audit plan, which was reported to the Audit & Governance Committee in February 2017. The audit plan identified areas of significant risk of material misstatement. The audit findings report summarises the work completed in relation to these risk areas. The audit work undertaken did not identify any issues with the way the council manages those risks however their work did identify the required accounting changes detailed in paragraph 21.
26. The auditors also consider internal controls as part of their work. They have walked through the processes for employee remuneration, property, plant & equipment, and operational expenditure and have not found any control weaknesses in these areas.
27. During the 2015/16 audit the auditors separately considered IT controls in the context of moving from a wholly substantive audit approach towards a more controls based audit approach in the future. As part of this they identified a small number of areas where IT controls could be improved to ensure they can place reliance on those controls in the future to reduce substantive testing. The audit findings report for 2016/17 contains an update on how the council has strengthened controls during the year.
28. The audit fee is in line with the planned fees and there was no unplanned work required.
29. The auditor is 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 2017, but based on the Ofsted inspection report of Children's Services from June 2015 has to include a qualification on an 'except for' basis to this opinion. As Ofsted has yet to publish a subsequent inspection report, the

judgement from June 2015 remains extant and the qualification on the value for money opinion remains the same as last year.

- 30. There are a small number of items still to be signed off by the auditors before the final opinion can be issued.

Conclusions:

- 31. 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

- 32. 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 2016/17 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

- 33. There are no direct equalities implications of this report.

Risk Management Implications

- 34. There are no direct risk management implications of this report.

Next steps:

- 35. The statement 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 small number of hard copies will be produced. However, 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.

Report contacts: Nicola O’Connor, Finance Manager (Assets & Accounting)
Jonathan Evans, Principal Accountant

Contact Details: nicola.oconnor@surreycc.gov.uk 020 8541 9263
jonathan.evans@surreycc.gov.uk 020 8541 8636

Sources/background papers:

Financial Outturn 2016/17 – Report to Cabinet 27 April 2017.

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 CIPFA

This page is intentionally left blank