

REPORT TO: AUDIT COMMITTEE

DATE: 26th September 2016

HEADING: AUDITED STATEMENT OF ACCOUNTS 2015/16

**PORTFOLIO
HOLDER:** N/A

KEY DECISION: NO

SUBJECT TO CALL-IN: NO

1. PURPOSE OF REPORT

This report is intended to provide the Audit Committee with the outcome of the external audit of the Statement of Accounts for the financial year 2015/16 and to seek approval of the Statement. A copy of the audited accounts is attached.

2. RECOMMENDATION

It is recommended that:-

- 1) the findings of the Statement of Accounts audit are noted.
- 2) the audited Statement of Accounts for 2015/16 including the Annual Governance Statement are approved together with the associated Letter of Representation.

3. REASON FOR RECOMMENDATION

To comply with statutory and constitutional requirements.

4. ALTERNATIVE OPTIONS CONSIDERED (with reasons why not adopted)

There are no alternative options.

5. BACKGROUND

A copy of the Statement of Accounts can be accessed via the following link:

[Statement of Accounts 2015-16.pdf](#)

The Letter of Representation is attached to the report.

Amendments to the Statement of Accounts 2015/16

The audit has resulted in some changes being necessary to the Statement of Accounts.

The Council's accounts consist of Ashfield District Council only statements and Group Accounts which consolidate both the Council's and Ashfield Homes Ltd statements.

In summary, the amendments made to the Council accounts have required notes to be changed however these changes have had no material impact on the key financial statements (i.e. Comprehensive Income & Expenditure Account, Balance Sheet and Movement in Reserves). There has therefore been no change to the previously reported out-turn position for the General Fund and the Housing Revenue Account.

Material amendments have been required to the Group Accounts key financial statements. The changes have been necessary as a result of one issue – not including the Council's obligations in respect of the pension liability of Ashfield Homes Ltd. This is outlined further in the report.

The primary changes made to the Council's accounts are as follows:-

1) EU Referendum. Narrative Statement (page 18) & Events after the Balance Sheet date (Note 5).

A note has been added to include the outcome of the EU Referendum which took place on 23rd June 2016 and resulted in the UK voting to leave the European Union. Exit negotiations will determine what arrangements apply in relation to EU legislation and funding in the future. A 'non-adjusting event' arises and therefore no changes are made to the financial statements.

2) Tangible Non-current Assets (Note 10)

In-year depreciation up to the date of valuation (31st January 2016) in respect of Non-current Assets had been charged to Depreciation and Impairments when the correct accounting treatment was to reverse in-year depreciation following revaluation. This has now been amended and has resulted in a reduction of £2.596m in the Depreciation and Impairments amount with a corresponding change to Cost or Valuation value. There is no change to the final Non-current asset values.

3) Teversal Grange Provision for Bad Debt. Debtors (Note 18) & Provisions (Note 22)

The Provisions note includes an amount for bad debt relating to amounts owing at Teversal Grange. This is still required but should be provided for within the overall bad debt provision rather than separately identified. The change results in a reduction in the Provision note of £120k and an addition to overall bad debt provision from £2.858m to £2.978m. This results in the Debtors total reducing from £6.351m to £6.231m.

4) Exit Packages – Note 28b

There was an error in the working paper which has required a change to the total cost of exit packages for those receiving £20k or less. The amount has changed by £1,226 from £78,451 to £77,225.

5) Audit Fees – Note 29

No change has been made to the table showing the cost of audit fees but further explanation has been added as to how these arose.

6) Asset held as Lessor – operating leases (Note 33 b)

This matter was reported to the June 2016 Audit Committee. The note in the accounts had been linked to the incorrect table in the working papers. The correct table is now present.

7) Pension Obligation Ashfield Homes Ltd - Amendments to Group Accounts 2015/16 and Prior Year Adjustment 2014/15 and 2013/14 (pages 117 to page 134).

Prior to commencement of the audit, it was noted that the Group Accounts did not include AHL pension obligations for the current year and prior years. This was notified to KPMG at commencement of the audit.

The pensions transfer from the Council to the Company was effected on the basis of deficits remaining with the Council, therefore it was agreed that the Council would be responsible for the liability up to the date of transfer. In addition, as the sole shareholder it was agreed the Council would indemnify AHL in respect of all liabilities that may have arisen from its pension obligations.

The pension position has been reported within the AHL statements and should be included within the Group position. It has been necessary to amend the Group Statements, details of which are outlined in note 2 of the Group Accounting Policies.

In summary, as shown within the Group Balance Sheet the Net Assets of the Group has :-

- for 2015/16 reduced from £117.619m (unaudited position) to £107.419m (audited position) a change of £10.2m. This has required an unusable reserve of £10.2m to correspond with the liability.
- for 2014/15 reduced from £100.01m (originally audited position) to £87.275m (restated position) a change of £12.735m. This has required an unusable reserve of £12.735m to correspond with the liability.
- for 2013/14 reduced from £106,872m (originally audited position) to £98,165m, a change of £8.707m. This has required an unusable reserve of £8.707m to correspond with the liability.

All amendments have been updated in the Statement of Accounts 2015/16 and the Statement is recommended for approval.

Weaknesses in Internal Control

The following control issues have been identified by KPMG and discussed as part of their report. This section of the report provides detail of the Council's intended actions to meet recommendations proposed.

Purchase Ordering – Raising of Purchase Orders.

Analysis has been undertaken by KPMG from purchase order and creditor data supplied by the Council. There is evidence to indicate that purchase orders are being raised after the invoice has been received. Financial Regulations require purchase orders to be raised at the start of the process when items are required. Without the purchase order at the outset, it is difficult to demonstrate that the items/ service purchased has been delivered/supplied in full and at the correct price. In addition by raising a purchase order this aids the budgeting process by placing a commitment against the budget on the main accounting system.

This matter was reported by Internal Audit to the December 2015 Audit Committee, together with details of the level of compliance from each Directorate during the period July to September 2015. During September and October 2015 members of the Financial Management team provided 9 training sessions to all employees who were involved with ordering and payment of goods and services and stressed the importance of compliance with Financial Regulations.

Further analysis based upon June and July 2016 processing is being reported to Corporate Leadership Team highlighting the key sections where non-compliance occurs with a view to taking further action. A non-compliance report will also be reported to the next Audit Committee.

Shared Services Payroll Processing– Authorisation of Payroll by Ashfield District Council

The Council's payroll service is provided by Mansfield District Council (MDC). Although checks are undertaken by MDC staff prior to submission of the payroll to the bank no pre-checks are undertaken by ADC. As client of the service and on the basis that values go through the ADC bank account, such controls should be in place.

This issue has been discussed by senior officers of Ashfield and Mansfield councils. Internal Audit have reviewed the exceptions report which is currently received by the management of the payroll service at Mansfield and concluded that it is fit for purpose. It is the intention that in future the Client officer (Service Director, Corporate Services and Transformation) will receive this exceptions report and discuss this with the Deputy Chief Executive (Resources), using monthly budget information provided by the Financial Management Team, to check at a high level that the exceptions were transactions which the Council was expecting. This information will also be used to assess the overall value of the payroll transactions to ensure that this corresponds to the amount of budget set aside for that month's payroll. This discussion will take place prior to the payroll file being sent to the bank.

Following from the consideration of the Exception Report as described above, the Service Director, Corporate Services and Transformation will give approval for the file to be submitted to the bank.

The Payroll Reconciliation will be considered during the same discussion and approved. The preferred method for this will be an exchange of e mails.

Letter of Representation

The Letter of Representation is attached for consideration and approval.

IMPLICATIONS:

- 1. Corporate Plan:**
Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting the Corporate Plan.
- 2. Legal:**
This report enables the Council to present for approval the audited Statement of Accounts by 30th September 2016 in accordance with statute.
- 3. Financial:**
The report outlines the detailed changes required to the Statement of Accounts as a result of the External Audit being completed.
- 4. Health and Well-Being / Environmental Management and Sustainability:**
The findings of this report have no direct impact on the Council's environment or sustainability.
- 5. Human Resources:**
There are no HR implications in relation to the content of this report.
- 6. Diversity/Equality:**
There are no diversity or equality issues relevant to this report.
- 7. Community Safety:**
With reference to Section 17, Crime and Disorder Act 1998 (as amended) there are no crime and disorder implications contained within this report
- 8. Other Implications:**
None

REASON(S) FOR URGENCY

N/A

EXEMPT REPORT

N/A

BACKGROUND PAPERS

None

REPORT AUTHOR AND CONTACT OFFICER

David Greenwood, Deputy Chief Executive (Resources)

01623 457200

d.greenwood@ashfield-dc.gov.uk

Sharon Lynch, Corporate Finance Manager
01623 457202
s.lynch@ashfield-dc.gov.uk