

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

2 March 2017

PRODUCTION OF STATEMENT OF ACCOUNTS 2016/17

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

- 1.1 To review changes to the Statement of Accounts Timetable and approach for 2016/17;
- 1.2 To review changes in the approach to the Annual Governance Statement for 2016/17.

2.0 BACKGROUND

- 2.1 The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a Local Authority.
- 2.2 The Code sets out the proper accounting practices required by the Local Government Act 2003. These proper practices apply to the Statement of Accounts which are prepared in accordance with the statutory framework established by the Accounts and Audit Regulations.
- 2.3 The Accounts and Audit Regulations set out the requirements and timelines for Member approval of Local Authority Accounts and one of the Terms of Reference for this Committee is to approve the Annual Statement of Final Accounts (SOFA).
- 2.2 The Accounts and Audit Regulations also include a requirement for the Statement of Final Accounts to include an Annual Governance Statement (AGS). The approval of the Annual Governance Statement is also one of the Terms of Reference of the Audit Committee.
- 2.4 The new Accounts and Audit Regulations 2015 introduced with effect from 1 April 2015 have resulted in a change in the timeframe for approval of the Statement of Accounts and these changes will be implemented from 2017/18 and therefore apply to the financial statements for that year.

3.0 STATUTORY REQUIREMENTS

- 3.1 Prior to the introduction of the revised Accounts and Audit Regulations in 2015, local authorities were required to have draft accounts produced and approved by the S151 Officer by 30 June and audited, approved and published by 30 September following the end of the financial year.
- 3.2 The Accounts and Audit Regulations 2015 set out the requirement to accelerate this process so that draft annual accounts are produced by 31 May (one month early than the current statutory deadline) and audited, approved and published by 31 July following the end of the financial year (two months earlier than the current statutory deadline).
- 3.3 The shortened timeframe for reporting of the SOFA will be effective from 2017/18.
- 3.4 The changes reflected in the new Accounts and Audit Regulations 2015 which impact on the closure of accounts process are as follows:
- (a) Certification of the Accounts by the S151 Officer (currently 30 June) and publication on the authority's website by 31 May to comply with the new public rights of inspection provisions;
 - (b) The full SOFA, including Annual Governance Statement has to be re-certified by the S151 Officer, approved by Members (this Committee), the external audit opinion to be issued and both published (currently 30 September) by 31 July;
 - (c) Where the Audit of Accounts has not been concluded by 31 July a notice must be put on the authority's website stating that it has not been able to publish the statement of accounts and the reasons for this and then subsequently publish the accounts as soon as reasonably practical after the receipt of any report from the auditor;
 - (d) The public's right of objection and inspection of the accounts and questioning of the auditor will be through a single 30 working day period which must include the first 10 working days of June;
 - (e) The SOFA must be available for public access for a period of not less than 5 years.

4.0 STATEMENT OF ACCOUNTS TIMETABLE 2016/17

- 4.1 In order to ensure compliance with the new regulations the County Council will be working to a revised timetable for the 2016/17 closure of accounts process, which is in line with the statutory deadlines set for 2017/18.
- 4.2 The Accounts and Audit Regulations do not require formal Member approval of the Draft SOFA. However, Member consideration, approval and certification is required for the Final SOFA.

- 4.3 In terms of Draft Accounts, the proposed approach for 2016/17 is to produce a draft SOFA (including the AGS), in accordance with the new reporting deadlines, by 31 May 2017.
- 4.4 This year, a report on the Draft SOFA and AGS will be presented to a meeting of this Committee scheduled for 22 June 2017, to be followed by an Audit Sub-Committee Group Meeting to facilitate a more detailed review of the accounts.
- 4.5 The process for the approval and certification of the Final SOFA is also to be brought forward for 2016/17. The external audit of accounts by KPMG is expected to start in July 2017. On completion of the external audit a report (including any changes reflected in the final SOFA compared with the draft version) will be submitted to the Audit Committee scheduled for 7 September 2017. Following consideration of the Auditor's report, the Committee will be asked to sign the Accounts.
- 4.6 The following timetable has been set for 2016/17 in order to ensure compliance with future statutory obligations and to provide Audit Committee with sufficient time and information to seek assurances. Provisions for reserve deadlines have also been made should they be required this year:

Date	Event	Comment
31/05/17	Draft SOFA – Deadline	NYCC Deadline for completion of 2016/17 Draft SOFA including AGS
22/06/17	Audit Committee	Update report to Audit Committee on Draft SOFA and AGS
w/c 26/06/17	Audit Committee Sub-Group (TBC)	Sub-Group Meeting to review Draft SOFA and AGS in detail
30/06/17	Draft SOFA - Statutory Deadline 2016/17	Current Statutory deadline for completion of 2016/17 Draft SOFA including AGS
13/07/17	Audit Committee	Reserve date for Update report on Draft SOFA and AGS
31/07/17	<i>Final SOFA – 2017/18 Deadline</i>	<i>Final SOFA and AGS Deadline for 2017/18 - NYCC not working towards this deadline</i>
07/09/17	Audit Committee	Final SOFA and AGS
22/09/17	Audit Committee	Reserve Date for Final SOFA and AGS
30/09/17	Final SOFA – Statutory Deadline 2016/17	Final Statutory deadline for completion of 2016/17 Draft SOFA and AGS

5.0 **CHANGES IN APPROACH TO CLOSURE OF ACCOUNTS PROCESS 2016/17**

5.1 In order to meet the challenge presented by the accelerated final accounts process a number of areas have been considered to facilitate the shortening of the timetable by one month. Particular areas of focus include:

(a) SOFA

A comprehensive review of the Statement of Accounts document was undertaken including Narrative Report, Accounting Policies, Main Statements and Supporting Notes in liaison with External Auditors.

As part of this review a materiality threshold of £2m has been established for reporting purposes. The limit has been set, based on an impact assessment, under which further detail will not be disclosed in the supporting Disclosure Notes where it is considered not beneficial to the reader of the accounts.

A further area currently under consideration is a review of the consolidated Group Accounts within the SOFA.

(b) Closure of Accounts Process

A series of workshops have been held to challenge and review tasks, timetables and reporting within the closure of accounts process.

(c) Internal Processes

A review of transactional processes has been carried out including bank reconciliations, holding accounts and suspense accounts to identify any issues and to ensure a planned approach to the closure of related areas.

(d) Technical Process Review

A review of the timetable for technical processes and tasks. This has resulted in the earlier scheduling of a number of year end tasks including capital accounting, SOFA document preparation and restatement requirements following changes in the Code of Practice.

6.0 **CHANGES IN APPROACH TO THE ANNUAL GOVERNANCE STATEMENT 2016/17**

6.1 As described above, the accelerated closedown process requires a new approach if the deadlines are to be met. The AGS is an integral part of the SOFA and the current approach has been developed to work with a 30 September deadline. This section therefore sets out some updates in terms of requirements and the plans to ensure compliance with an accelerated closedown process.

6.2 North Yorkshire County Council has been complying with the CIPFA/SOLACE Delivering Good Governance in Local Government 2007 Framework, which sets the standard for local authority governance in the UK. This Framework was reviewed in

2012 to ensure that it remained 'fit for purpose' and an addendum was issued to the 2007 Framework in 2012. NYCC has used the aforementioned documents as the basis for reviewing and reporting on the effectiveness of its governance arrangements.

CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016

- 6.3 Following publication of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016, the Council carried out a review of the changes, and has updated their compliance documentation including the Local Code and the Annual Governance Statement. This Framework applies to the financial year 2016/17 onwards.

New 2016 Framework Principles

- 6.4 The new 2016 Principles that need to be reflected in the Local Code with links to the Annual Governance Statement are as follows:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
 - B. Ensuring openness and comprehensive stakeholder engagement;
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
 - F. Managing risks and performance through robust internal control and strong public financial management;
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework.

Changes to the Local Code, Annual Governance Statement and Statements of Assurance

- 6.5 **Local Code** – the Code has been changed to represent the new Principles. Some of the contents of the existing Principles remain and there are two new ones namely:
- Determining the interventions necessary to optimise the achievement of the intended outcomes; and

- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The two 'new' Principles contain many behaviours and actions that the Council have previously evidenced either as part of one of the existing Principles or as part of our work evidencing compliance with the CIPFA/SOLACE Statement on the Role of the Chief Financial Officer in Local Government.

6.6 **Annual Governance Statement** – the AGS has been changed to align with the new Framework and Principles. It includes the key elements of governance arrangements to support the Council's vision for the area, outcomes and value for money. It also provides an assessment of the effectiveness of the Council's governance arrangements in supporting the planned outcomes.

6.7 **Statements of Assurance** – the current approach is for the Chief Executive and all Corporate Directors to prepare a signed individual Statement of Assurance relating to the governance and internal control procedures, and the review thereof, in their service areas. This is not, however, a requirement but is used as the basis for Section 7 of the AGS. Going forward it is proposed that Statements of Assurance will not be completed but clearly Corporate Directors will continue to be asked to review the effectiveness of the system of internal control and risk management processes and to report on such issues when they present their annual reports to the Audit Committee. Reference points for this report will include:-

- Internal audit reports
- Risk registers (which overlap Statements of Assurance to a very large extent)
- Items which Management Board have deemed appropriate for Section 7 of the AGS (which will continue to be produced) and fall within their remit
- Issues identified by Audit Committee and / or Overview & Scrutiny Committees and
- Personal views and judgements about key issues impacting upon governance and the control environment

Areas for further improvement and steps to address the matters so identified will therefore continue to be a feature and the Audit Committee will be able to test these areas in line with the Committee programme.

6.8 The update of the AGS for 2016/17 will fall in line with the revised timetable for the SoFA.

7.0 **RECOMMENDATION**

7.1 That Members:

- (i) review the Statement of Accounts Timetable and approach for (**paragraph 4.1 to 4.6**);
- (ii) review the changes in approach to the Annual Governance Statement for 2016/17 (**paragraph 6.1 to 6.8**).

GARY FIELDING

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2 March 2017