

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 September 2017

STATEMENT OF FINAL ACCOUNTS for 2016/17 including LETTER of REPRESENTATION

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

- 1.1 To approve a Letter of Representation that is required to be submitted to the External Auditor.
- 1.2 To approve a Statement of Final Accounts for 2016/17 following completion of the external audit of those Accounts.
- 1.3 To approve the Annual Governance Statement (AGS) for 2016/17.

2.0 BACKGROUND

- 2.1 A draft Statement of Final Accounts (SOFA) for 2016/17 was considered by this Committee on 22 June 2017 in advance of these accounts being audited by the External Auditor during July and August 2017. This SOFA incorporates the accounts of the North Yorkshire Pension Fund.
- 2.2 A number of issues identified following the meeting on 22 June 2017 and in subsequent correspondence have been picked up by the Members Working Group on Governance, whose report is a separate item on the agenda for this meeting.
- 2.3 The external audit of the 2016/17 Accounts is now complete with the report of the External Auditor being included as a prior item on this Agenda. Separate reports are issued by the External Auditor for the County Council and North Yorkshire Pension Fund accounts.
- 2.4 The External Auditor has indicated that he anticipates being able to issue an unmodified opinion by the time the Audit Committee meets.
- 2.5 The revised SOFA is provided as a separate booklet in the Agenda papers for this meeting.
- 2.6 To conclude the Final Accounts process (in advance of the External Auditor signing off the 2016/17 Accounts by the required statutory date of 30 September 2017), it is necessary for this Committee to
 - (i) agree and countersign a Management Letter of Representation to the External Auditor (see **paragraph 3**)

- (ii) note the changes reflected in the Final SOFA compared to the version considered on 22 June 2017(see **paragraph 4**), and
- (iii) approve the Final SOFA and authorise the Chairman to sign the Accounts on that basis (see **paragraph 5**)

2.7 The report also asks Members to approve a final Annual Governance Statement for 2016/17 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6**).

3.0 **LETTER OF REPRESENTATION**

3.1 The External Auditor requires a written representation from the County Council's management as an acknowledgement of its responsibility for the fair presentation of the SOFA and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.

3.2 The Letter of Representation is attached as **Appendix A**. The Letter should be reviewed by the Audit Committee as the body charged with responsibility for governance and then signed on their behalf by the Chairman, before approval of the SOFA. This is to ensure that Members of this Committee are aware of the representations on which the Auditor intends to rely when issuing his opinion.

3.3 The Letter applies to the financial statements of both the County Council and North Yorkshire Pension Fund.

3.4 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to sign it on their behalf. The Letter will then be submitted to the External Auditor.

4.0 **CHANGES REFLECTED IN THE FINAL SOFA**

4.1 A number of changes have been made to the SOFA since it was considered by Members of this Committee on 22 June 2017.

4.2 These changes are explained in detail in **Appendix B** attached and arise from:-

- (i) refinements agreed with the External Auditor during their audit of the accounts
- (ii) internally initiated refinements together with those resulting from comments and questions by Members of this Committee and the Members Working Group
- (iii) inclusion of the External Auditor's certificate which was not included in the draft document on 22 June 2017.

5.0 APPROVAL OF THE FINAL SOFA

5.1 The audited final SOFA is attached as a separate booklet. This incorporates all the changes to the draft version considered by Members on 22 June 2017, as set out in **paragraph 4** and **Appendix B**. These accounts will be re-signed by the Corporate Director – Strategic Resources and the Chief Executive on 7 September 2017.

5.2 Members are therefore asked to approve the Final SOFA for 2016/17 following completion of the audit and authorise the Chairman to sign the accounts on behalf of the Audit Committee. A copy of the Statement of Responsibilities for the Statement of Accounts (page 20 of the SOFA) which the Chairman is asked to sign is attached as **Appendix C** with the wording

‘I confirm that these accounts were approved by the Audit Committee On 7 September 2017.’

5.3 A copy of the Balance Sheet (pages 41 and 42 of the SOFA) is also attached as **Appendix D**.

5.4 As mentioned in **paragraph 2.4** the External Auditor has indicated that he anticipates being able to issue an unmodified opinion on the accounts.

6.0 ANNUAL GOVERNANCE STATEMENT

6.1 The Annual Governance Statement (AGS) is an annual report which assesses the effectiveness of the governance processes which have been put in place within the Council. It accompanies the Statement of Final Accounts.

6.2 The AGS has been drafted to comply with the latest Delivering Good Governance Framework in Local Government 2016 and associated Principles.

6.3 In order to fulfill its responsibilities, the Audit Committee needs to be able to satisfy itself that the governance and internal control processes described in the AGS are in fact both operational and effective. One aspect of this assurance process is to review progress by management on dealing with the issues identified in the AGS. The Audit Committee considered a draft AGS at its meeting on 22 June 2017.

6.5 The requirement to produce an AGS is set out in the Accounts and Audit (England) regulations for the Council to approve an AGS as part of the SOFA and the Audit Committee is therefore requested to formally approve the AGS 2016/17 and to authorise the Chairman to sign the AGS on its behalf.

7.0 **RECOMMENDATIONS**

- 7.1 That Members authorise the Chairman to sign the Letter of Representation set out in **Appendix A** on behalf of the Audit Committee.
- 7.2 That in relation to the Statement of Final Accounts 2016/17
- (i) Members note the changes to the Final SOFA as set out in **paragraph 4 and Appendix B**, and
 - (ii) Members approve the Final SOFA for 2016/17 (**paragraph 5.2**), and
 - (iii) recommend that the Chairman sign the Statement of Responsibilities for the Statement of Accounts as attached at **Appendix C**
- 7.3 That Members approve the Annual Governance Statement 2016/17 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6.5**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall,
Northallerton
7 September 2017

There are no background documents



Our Ref: GF/

Gary Fielding
Corporate Director
Strategic Resources
County Hall
Northallerton
North Yorkshire
DL7 8AD
Tel: 01609 533304
Fax: 01609 778199

Email: gary.fielding@northyorks.gov.uk

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

7 September 2017

Dear Rashpal

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council ("the Council"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Expenditure and Funding Analysis, the Council and Group Movement in Reserves Statements, the Council and Group

Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the related notes (including the Expenditure and Funding Analysis). The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Council has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

- additional information that you have requested from the Council for the purpose of the audit; and
 - unrestricted access to persons within the Council and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Council confirms the following:
- i) The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Council has disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is aware of and that affects the Council and the Group and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Council's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Council has disclosed to you the identity of the Council's and the Group's related parties and all the related party relationships and transactions of which it

is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

11. The Council confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Council's and the Group's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Council and the Group to continue as a going concern.

12. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Council further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 7 September 2017.

Yours faithfully,

Clifford Lunn
Chair of the Audit Committee

Gary Fielding
Corporate Director, Strategic
Resources

cc: Audit Committee

Appendix to the Council Representation Letter of North Yorkshire County Council:

Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and

nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- b) An entity is related to a reporting entity if any of the following conditions applies:
- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the Council and other persons having the authority and responsibility for planning, directing and controlling the activities of the Council, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**CHANGES TO THE 2016/17 STATEMENT OF FINAL ACCOUNTS
SINCE AUDIT COMMITTEE ON 22 June 2017.**

1.0 Introduction

1.1 There have been a number of changes made to the Statement of Final Accounts (SOFA) since it was considered by the Audit Committee on 22 June 2017.

1.2 These changes are as a result of:

- (a) Refinements agreed with the External Auditor during the Audit of Accounts process
- (b) Internally initiated refinements together with those resulting from comments and questions by Members of this Committee the Members Working Group.
- (c) Inclusion of the External Auditor's Certificate that was not included in the draft document on 22 June 2017.

2.0 Changes made as a result of the final accounts audit

2.1 KPMG commenced their auditing of the SOFA in early July 2017 and concluded their auditing process in early September 2017. During the audit process, the following amendments have been agreed with the auditor.

- amendments to the County Council and Group Balance Sheet, Comprehensive Income and Expenditure Statement and Expenditure, and Expenditure and Funding Analysis to reflect changes to the valuation of Land and Buildings revalued in year;
- amendment to the County Council and Group Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis regarding the accounting for grant income;
- minor changes to disclosures and notes to the accounts; and
- various amendments to Pension Fund Main Statements and supporting notes.

3.0 Internally initiated refinements, together with queries raised by Members of the Audit Committee on 22 June 2017 and subsequently the Members Working Group on Governance

- various presentational adjustments to the supporting notes to assist the reader of the accounts;
- adjustments to the Annual Governance Statement; and
- various minor presentational issues and rounding adjustments.

4.0 Inclusion of the External Auditor's Certificate in the final SOFA as a result of the Audit process having now been finalised.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The County Council is required to:

- (a) make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director – Strategic Resources;
- (b) manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- (c) approve the Statement of Accounts.

The Corporate Director – Strategic Resources is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Corporate Director – Strategic Resources has:

- (a) selected suitable accounting policies and then applied them consistently;
- (b) made judgements and estimates that were reasonable and prudent; and
- (c) complied with the local authority Code.

The Corporate Director – Strategic Resources has also:

- (a) kept proper accounting records which were up to date; and
- (b) taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE CORPORATE DIRECTOR – STRATEGIC RESOURCES

I certify that the Statement of Accounts 2016/17 presents a true and fair view of the financial position of the County Council and the North Yorkshire Pension Fund at the accounting date and their income and expenditure for the year ended 31st March 2017.

Gary Fielding
Corporate Director – Strategic Resources
September 2017

Co-signed by,
Richard Flinton
Chief Executive
September 2017

CERTIFICATE OF THE AUDIT COMMITTEE

I confirm that these Accounts were approved by the Audit Committee on 7th September 2017 following completion of the External Audit

Chair of the Audit Committee
September 2017

BALANCE SHEET AS AT 31ST MARCH 2017

31st March 2016 £000		31st March 2017 £000
1,507,699	Property, Plant and Equipment (note 18)	1,495,797
34,731	Investment Property (note 25)	35,722
9,763	Intangible Assets (note 24)	8,616
3,518	Long Term Investments (note 29)	9,018
21,420	Long Term Debtors (note 30)	16,053
1,577,131	Long Term Assets	1,565,206
227,383	Short Term Investments (note 39a)	276,218
1,081	Inventories	1,695
64,137	Short Term Debtors (note 31)	77,381
69,013	Cash and Cash Equivalents (note 28)	49,260
170	Assets held for sale (note 27)	170
361,784	Current Assets	404,724
(57,566)	Short Term Borrowing (note 39a)	(100,454)
(83,904)	Short Term Creditors (note 32)	(90,233)
(272)	PFI Liability repayable within 12 months (note 12)	(193)
(8)	Finance Lease repayable within 12 months (note 13)	(9)
(1,996)	Provisions to be used within 12 months (note 33)	(2,599)
(3,025)	Capital Grant Receipts in Advance (note 9)	(2,707)
(146,771)	Current Liabilities	(196,195)
(3,073)	Long Term Creditors (note 23)	(3,004)
(4,181)	PFI Liability repayable in excess of 12 months (note 12)	(3,988)
(1,077)	Finance Lease repayable in excess of 12 months (note 13)	(1,068)
(5,750)	Provisions to be used in excess of 12 months (note 33)	(7,870)
(436,923)	Pensions Liability (note 10)	(463,951)
(308,975)	Long Term Borrowing (note 39a and 39d)	(277,531)
(4,889)	Capital Grant Receipts in Advance (note 9)	(2,973)
(764,868)	Long Term Liabilities	(760,385)
1,027,276	Net Assets	1,013,350

31st March 2016 £000		31st March 2017 £000
	Usable Reserves	
27,270	General Working Balance (note 34a)	27,270
192,543	Earmarked Reserves (note 34b)	189,716
0	Capital Receipts Unapplied Reserve (note 34c)	1,618
27,304	Capital Grant Unapplied Reserve (note 34d)	35,630
247,117	Total Usable Reserves	254,234
	Unusable Reserves	
260,831	Revaluation Reserve (note 35a)	280,141
4,675	Collection Fund Adjustment Account (note 35b)	5,614
0	Financial Instruments Adjustment Account (note 35c)	0
(7,606)	Accumulated Absences Account (note 35d)	(9,424)
(436,923)	Pension Reserve (note 35e)	(463,951)
959,182	Capital Adjustment Account (note 35f)	946,736
780,159	Total Unusable Reserves	759,116
1,027,276	Total Reserves	1,013,350