

NORTH YORKSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****21 June 2019****DRAFT STATEMENT OF ACCOUNTS 2018/19****Report of the Corporate Director – Strategic Resources****1.0 PURPOSE OF THE REPORT**

- 1.1 To consider a draft Statement of Final Accounts (SOFA) for 2018/19 for the County Council in advance of:
- (a) these accounts being audited by Deloitte during June and July 2019 and
 - (b) being re-submitted to this Committee for formal approval 22 July 2019 after the external audit has been completed.
- 1.2 To approve a Corporate Governance Working Group and its membership in order to provide further overview of the SOFA for 2018/19 and supporting documentation.

2.0 BACKGROUND

- 2.1 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 SOFA.
- 2.2 There is no requirement for Member approval of a draft SOFA at this stage in advance of consideration and review by External Audit.
- 2.3 The Accounts and Audit Regulations 2015 set out the requirements for the certification and publication of the accounts. The SOFA must be certified by the Section 151 (Chief Finance) Officer by 31 May and approved by Members (the Audit Committee) in advance of the certification and publication of the Accounts by 31 July. Therefore, the SOFA is being submitted to the Audit Committee in June for information and review/comment only, not formal approval.
- 2.4 The draft SOFA includes the draft Annual Governance Statement (AGS). At this stage it remains draft pending further work including output as a result of the Governance sub-group.
- 2.5 The final SOFA, after External Audit, will be re-submitted to this Committee on 22 July 2019 for formal approval.

3.0 **STATEMENT OF FINAL ACCOUNTS 2018/19**

- 3.1 The County Council's draft SOFA for 2018/19 is attached as a separate booklet circulated with the agenda after being certified by the Corporate Director – Strategic Resources on 30 May 2019.
- 3.2 The format and content of the SOFA must comply with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. This Code prescribes the accounting treatment and disclosures for all transactions and balance sheet items of a Local Authority's Accounts and constitutes 'a proper accounting practice' under the terms of the Local Government Act 2003.
- 3.3 A summary sheet giving a brief explanation of the various statements included in the SOFA is attached as **Appendix A**.

4.0 **CHANGES REFLECTED IN THE 2018/19 SOFA**

- 4.1 There are two key changes to the Code of Practice that impact on the County Councils 2018/19 Accounting Policies, which were reported to the Audit Committee in March 2019.
- 4.2 The accounting policy for Long Term Investments and Financial Instruments (paragraphs 8 and 14 of the Statement of Accounting Policies within the Statement of Accounts) have now been updated to reflect changes required following the introduction of IFRS 9. The changes reflect the new classifications and accounting requirements for re-measurement of certain financial assets.
- 4.3 Minor changes have been reflected in paragraph 9 of the Statement of Accounting Policies within the Statement of Accounts for Accruals of Income and Expenditure to reflect the introduction of IFRS 15 by the CIPFA Code of Practice. IFRS 15 stipulates the accounting treatment for recognising revenue from contracts with customers. The County Council has reviewed its current practice in this area and the authority currently meets the requirements of IFRS 15, so no practical changes in how the County Council recognises revenue from contracts with customers is required in the 2018/19 accounts.

5.0 **REVENUE AND CAPITAL OUTTURN FOR 2018/19**

- 5.1 Revenue Budget and Capital outturn reports for 2018/19 were considered by the Executive on 21 May 2019. These reports and the spending details reported form only part of the information reflected in the full SOFA, which also includes a Balance Sheet, Cash Flow Statement, Group Accounts, Pension Fund Accounts etc.
- 5.2 The Council's in-year accounting and budgeting arrangements are designed to fit its organisational structure and are different to the statutory year-end requirements. Therefore, the management accounts have had to be reworked to fit these formal requirements.
- 5.3 The main differences between the County Council's management accounts and the published statutory accounts are set out at **Appendix B**.

5.4 Although the presentation of the figures in the SOFA (Income and Expenditure Account) is very different, the resulting changes do not affect the overall net expenditure to be funded from Central Government Grant, Business Rates and Council Tax or the levels of working balances.

6.0 **CERTIFICATION AND AUDIT OF ACCOUNTS**

6.1 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.

6.2 The Accounts and Audit Regulations require the responsible financial officer to sign and date the Draft SOFA by 31 May and certify that it presents 'a true and fair view of the financial position of the Authority at the end of the year and its income and expenditure for that year'.

6.3 The Chief Executive has also co-signed the SOFA recognising the unique position of the Chief Executive.

6.4 The responsible Financial Officer (Corporate Director – Strategic Resources) must also re-certify the Final version of the SOFA before it is approved by the Audit Committee.

6.5 The Accounts and Audit Regulations require that the External Auditor formally signs off the County Council's 2018/19 accounts by 31 July 2019. Deloitte will undertake the audit of the accounts during June and July 2019.

6.6 On completion of the external audit of the 2018/19 accounts a report from the Auditor will be submitted to the meeting of this Committee scheduled for 22 July 2019. Following consideration of the Auditor's report, the Committee will be asked to consider and approve the SOFA with the Chairman being asked to sign and date the Accounts prior to it being formally signed off by the External Auditor.

6.7 The Auditors' conclusion from their audit will also be reported through the Annual Audit Letter. This Letter will be submitted to a future meeting of this Committee and the Executive.

6.8 Any significant changes reflected in the Final SOFA compared with the Draft version attached, as a result of the audit, will be reported to Members.

6.9 In addition it is again proposed that a working group be created to support the Audit Committee in reviewing the SOFA and associated governance documents. It would be intended that a report from the working group is considered in advance of the SOFA at the next meeting of the Committee on 22 July 2019. The Committee are asked to identify who they would wish to be involved in this working group.

7.0 **AUDIT AND ACCOUNTS REGULATIONS 2015**

7.1 The requirements of the 2015 Accounts and Audit Regulations, all of which have been implemented in the 2018/19 accounts process, are as follows.

- (a) Certification of the Accounts by the S151 Officer and publication on the authority's website by 31 May from 2018/19.
- (b) The full SOFA has to be re-certified by the S151 Officer, approved by Members (this Committee), the external audit opinion to be issued and both published by 31 July from 2018/19.
- (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 is through a single 30 working day period including 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.

8.0 ANNUAL GOVERNANCE STATEMENT

- 8.1 The draft SOFA includes the draft Annual Governance Statement (AGS). The Statement has been considered by a Governance sub group, minor changes have been made and are reflected in the present version. Following consideration by the full Committee at this meeting, a final version of the AGS will be submitted on 22 July 2019 when this Committee is asked to formally approve the final SOFA.

9.0 RECOMMENDATION

- 9.1 That Members consider the draft Statement of Final Accounts for 2018/19 in advance of the accounts being audited and resubmitted to the Audit Committee on 22 July 2019 for formal approval.
- 9.2 That Members approve creation and identify members of a working group as set out in **paragraph 6.9**.

GARY FIELDING

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County Hall
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21 June 2019

STATEMENT OF FINAL ACCOUNTS
Brief Explanation of Contents

(a) Narrative Statement

The purpose of this statement is to act as a guide to the most significant matters impacting on the County Council's finances. It gives provides commentary on the County Councils financial performance and value for money in its use of resources.

(b) Independent Auditor's Report

The report explains the auditors' responsibilities in relation to the Statement of Accounts. It also expresses an opinion on the Accounts and shows how this opinion was reached. The report also gives a value for money opinion in terms of the arrangements for securing economy, efficiency and effectiveness, (currently not included in draft SOFA).

(c) Statement of Responsibilities for the Statement of Accounts

This statement outlines the County Council's responsibilities for the Accounts under local government legislation and any other requirements. It also details the legal and professional responsibility for the Accounts of the Corporate Director – Finance and Central Services (i.e. Section 151 officer).

(d) Statement of Accounting Policies

This statement explains the principles, bases, conventions and rules applied by the County Council in preparing the Statement of Accounts.

(e) Expenditure and Funding Analysis

This statement demonstrates how the funding available to the County Council for the year has been used in providing services in comparison with those resources consumed or earned by the County Council

(f) Comprehensive Income and Expenditure Statement

This shows the Net Cost of the Services provided by the County Council and how this has been financed from general government grants and local tax payers. This Statement shows the accounting cost in the year of providing services in accordance with specified accounting principles, rather than the amount to be funded from taxation.

(g) Movement in Reserves Statement

This Statement shows the movement in the different reserves held by the County Council over the year. The Statement is analysed into usable reserves, those that can be applied to fund expenditure or reduce local taxation, and other unusable reserves.

(h) Balance Sheet

This is a statement of the overall financial position of the County Council at the end of the year and shows the Balances and Reserves at the County Council's disposal, its long term indebtedness and the fixed and net current assets employed in its operations.

(i) Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the financial year. The Statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

(j) Notes to the Core Financial Statements

These notes provide further details and explanation of the figures included in the Core Financial Statements.

(k) Group Accounts

The County Council conducts some of its activities through partnerships and separate undertakings. Some of these are not directly reflected in the statements (e) – (i) above due to legal and regulatory reasons. These Group Accounts are required to present a full picture of the County Council's economic activities and financial position in order to aid the primary financial statements.

(l) North Yorkshire Pension Fund Accounts

The Accounts show the income and expenditure of the North Yorkshire Pension Fund together with the financial position of the Fund on 31 March.

(m) Annual Governance Statement

This statement sets out the framework within which financial control and corporate governance is managed and reviewed by the County Council and the main components of the system. It also reports on significant identified weaknesses and the actions undertaken to rectify these.

APPENDIX B**MAIN DIFFERENCES BETWEEN THE MANAGEMENT ACCOUNTS
AND THE PUBLISHED STATUTORY ACCOUNTS****1.0 CAPITAL CHARGES**

In the SOFA, the County Council is required to adopt CIPFA's Capital Accounting Regulations which means that each service has to reflect a depreciation charge for the assets they use (land, building, plant and machinery etc.) Adjustments are also made for the following other types of capital charge:

- impairment of non-current (fixed) assets
- revaluation losses from the revaluation of property
- changes in the market value of Investment Properties
- amortisation of intangible assets
- revenue expenditure from capital under statute (capital expenditure that does not result in a County Council asset)

These capital charges replace the minimum revenue provision (MRP) for debt repayment which is included in the management accounts, and charged against the County Council's budget requirement. The MRP is therefore not charged to the Comprehensive Income and Expenditure Statement. Similarly, capital expenditure which is funded directly by the General Fund (funded by Council Tax, General Revenue Grant and Business Rates) is not charged to the Comprehensive Income and Expenditure Statement.

Capital charges are off-set by capital grants and contributions (which are used to fund expenditure on non-current (fixed assets)). These contributions are credited in full to the Comprehensive Income and Expenditure Statement in the year where the terms and conditions of these contributions have been satisfied but this treatment does not impact on the management accounts of the County Council. Where the conditions of these capital grants have not been met at year-end, the grant is held in the balance sheet as 'Capital Grant Unapplied'.

2.0 TRANSFERS TO AND FROM RESERVES

Transfers into, and expenditure funded from, reserves are not considered part of the net cost of services and are therefore not reflected at all within the Income and Expenditure Statement.

**3.0 EMPLOYER'S PENSION FUND CONTRIBUTIONS AND ADJUSTMENTS
INVOLVING THE PENSION FUND RESERVE**

Accounting for retirement benefits (IAS 19) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the North Yorkshire Pension Fund by the County Council include an element of back-funding to recover the Pension Fund deficit, the service expenditure figures reported in the SOFA have to be adjusted to reflect the current service cost as calculated by the Fund actuary.

In addition, the Comprehensive Income and Expenditure Statement also includes, as part of operating expenditure, the net impact of the notional return (County Council share) of the Pension Fund assets and the increase in accrued future pension liabilities.

The required changes also reflect the inclusion of the attributable share of Pension Fund assets and liabilities in the County Council's Balance Sheet. This reflects the County Council's commitment to the Pension Fund but does not mean however that legal title or obligation has passed from the trustees of the Pension Fund to the employer.

4.0 COUNCIL TAX AND BUSINESS RATES (COLLECTION FUND) ACCOUNTING

The County Council's Income and Expenditure Statement includes the Authority's share of the carried forward Council Tax and Business Rates Collection Fund surpluses and deficits of each of the seven District Councils at the year end. This is in place of the estimated sums at the previous year end that have been paid over to the County Council during the year and used for Budget/Council Tax setting purposes in future years.

5.0 HOLIDAY AND FLEXI PAY ACCRUAL

The County Council has to charge the Income and Expenditure Statement with an estimate of accrued and untaken Annual Leave and Flexi Leave at 31 March. This figure includes a substantial figure for untaken Teacher's (and other schools-based staff) holiday pay, in relation to the days worked and taken as holiday in the Spring Term at each school. This adjustment is purely notional and does not impact on the County Council's budget requirement or level or working balances (GWB).

6.0 GAINS AND LOSSES ON THE DISPOSAL ON NON-CURRENT (FIXED) ASSETS

An example of this would be where a School acquires Academy status and there is an automatic transfer of the ownership of the Land and Building of the school premises to the School's Board of Governors for nil value. Such a notional loss does not, however, impact on the day to day management accounts or level of general working balances.

7.0 OTHER DIFFERENCES

Certain other transactions such as interest earned and paid, precept payments to other bodies etc. are not considered as part of the net cost of services and are required to be shown as separate items below service expenditure totals in the Income and Expenditure account. Similarly some Government Grants and Funding sources are required to be shown as overall general funding, rather than being included in the Income and Expenditure Statement as Service income.