

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**AUDIT OF ACCOUNTS 2016/2017  
MATTERS ARISING FROM THE AUDIT**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 The council's unaudited accounts were approved by the Director Governance and Partnerships on 22 June 2017. This met the statutory requirement that they be approved by 30 June 2017.
- 1.2 The Accounts have been produced under International Financial Reporting Standards (IFRS).
- 1.3 The accounts have since been audited and the external auditors have set out their findings in a report. This committee now needs to consider the proposed amendments and approve the changes to the accounts that result from it. It is a statutory requirement that this process concludes by 30 September 2017.
- 1.4 Some amendments are required to the accounts. However they do not change the position previously reported to Cabinet, in terms of the General Fund or balances available. There is therefore no impact on the Medium Term Financial Plan.
- 1.5 The council's external auditors expect to issue an unqualified opinion on the accounts shortly.

**2. BACKGROUND INFORMATION**

- 2.1. The Accounts and Audit Regulations require the Council to publish a statement of accounts each financial year. These accounts are the formal statement of the Council's financial performance for the year and its financial position at the end of that period. A financial year runs from April to March.
- 2.2. These accounts have to be considered and approved by the Council's Chief Financial Officer by 30 June. They must then be audited and published within six months of the financial year-end. These deadlines are statutory requirements. The accounts were approved on the 22 June, before the statutory deadline.

- 2.3. The International Standard on Auditing 260 – ‘The Auditor's Communication with Those Charged with Governance (ISA 260)’ requires auditors to report certain matters arising from the audit of the council’s financial statements before giving an opinion on them.
- 2.4. The report from the council’s Auditors (KPMG) is attached. It sets out the matters arising from the audit of the council’s 2016/2017 accounts. Staff from KPMG will present the report to Committee. A copy of the amended accounts is included with this report.
- 2.5. The main findings of the report are:
- An unqualified opinion on the council’s accounts and arrangements for Value for Money are expected
  - That the closedown process has met the necessary statutory deadlines
  - Some adjustments to the accounts were required
  - A system weakness relating to super user accounts within Northgate was identified. This issue will be addressed with the system supplier during 2017/2018. No inappropriate use or changes to the system were identified during the audit
  - The valuations of Property, Plant and Equipment was identified as an area for process improvement
- 2.6. International Standard on Auditing 580 ‘Management Representations’ requires auditors to obtain written confirmations of appropriate representations from management before the audit report is issued. A proposed letter of representation is attached, which the Committee is asked to approve and authorise the Chair of the Audit Committee and the Director: Governance and Partnerships to sign.
- 2.7. Additionally IAS 570 requires a specific statement on the applicability of the ‘Going Concern’ concept to the council. The accounts have been prepared on a going concern basis. A review of the applicability of the concept to the council can be seen at Appendix 1. The Audit Committee are asked to confirm their agreement with this view.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1. The Audit Committee are invited to approve the amended accounts as attached.
- 3.2. That the Committee considers the Auditor’s ISA 260 report and note its findings.
- 3.3. The Audit Committee are also invited to endorse the signing of the Letter of Representation.

### **4. ANALYSIS OF OPTIONS**

- 4.1 Statutorily the accounts must be approved by the 30th September. The Committee should ask sufficient questions to gain assurance that the accounts present fairly the financial position of the council.

**5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

5.1 The accounts present the council's financial position as at 31 March 2017. There are no other resource implications.

**6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 The Accounts and Audit Regulations 2015 (England) require that each authority prepare and approve its accounts by 30 June and publish them by 30 September. The format and content of the accounts is also governed by the IFRS Code of Practice issued by CIPFA.

**7. OUTCOMES OF CONSULTATION**

7.1 None

**8. RECOMMENDATIONS**

8.1 That the Statement of Accounts for 2016/2017, prepared on a going-concern basis and as amended in line with the Auditor's findings be received and approved.

8.2 The Audit Committee notes the contents of the ISA260 Report.

8.3 The Audit Committee endorse the signing of the Letter of Representation by the Chair of the Audit Committee and the Director: Governance and Partnerships.

DIRECTOR:GOVERNANCE AND PARTNERSHIPS

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**Background Papers used in the preparation of this report**

**None.**



## GOING CONCERN REVIEW

### 1. INTRODUCTION

Local authorities are generally assumed to be going concerns as they carry out functions essential to the local community and are themselves revenue raising bodies, with limits on their revenue-raising powers arising only at the discretion of central government.

If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, external auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. In response, this report sets out the position at North Lincolnshire Council.

### 2. BACKGROUND

As with all local authorities, the council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2016/2017 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the council's Statement of Accounts is prepared assuming that the council will continue to operate for the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the council will realise its assets and settle its obligations in the normal course of business.

### 3. GOING CONCERN ASSESSMENT

The main factors which underpin this assessment are outlined below and include:

- The council's current financial position
- The council's projected financial position
- The council's strategic planning and budget framework process
- The regulatory and control environment applicable to the council as a local authority

#### 3.1 The council's current financial position

The council's financial management arrangements continue to be effective and its financial position resilient. Despite the challenge of tighter resources year on year to meet the Government's deficit reduction programme and to keep council tax as low as possible, the council continues to deliver spend within budget. The revenue outturn position for 2016/2017 shows an under-spend of £0.7m. As at the 31 March 2017, the council held revenue reserves of £34.7m.

On capital there was a £6.6m under-spend in the approved capital programme for the year. This reflects the need to re-phase expenditure into later years and also slippage on schemes involving partner organisations.

### **3.2 The council's projected financial position**

The council has approved a balanced Medium Term Financial Plan covering the period 2017/18 – 2019/20, that was approved by Council in February 2017. The Council's budget is sustainable and maintains General Fund reserves at a prudent level, providing flexibility to help manage the financial impact of unforeseen and one-off events that may occur in the current volatile economic climate.

There remain a number of risks to the Council's future financial position, which include:

- Non-achievement of planned savings or income targets
- Potential further reductions in central government funding
- Additional spend pressures as a result of inflation, demographic pressures and other factors
- The Fair Funding review in 2020

### **3.3 The council's strategic planning and budget framework process**

The revenue budget forms part of the council's overall strategic planning framework. It provides the means whereby the council's overarching vision and priorities are delivered.

### **3.4 The regulatory and control environment applicable to the council as a local authority**

The council has a well-established and robust corporate governance framework. This includes the statutory elements like the post of Head of Paid Service, the Monitoring Officer and the Section 151 Officer in addition to the current political arrangements.

An overview of this governance framework is provided within the Annual Governance Statement. This includes a detailed review of the effectiveness of the council's governance arrangements. Whilst it is not possible to provide absolute assurance, the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide assurance of their effectiveness.

As a local authority the council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being, when faced with such a scenario, that central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery.

#### **4. CONCLUSION**

The Council has assessed and continues to monitor the risks associated with the above and the projected falls in central government funding and has a Medium Term Financial Plan that mitigates those risks to help ensure continued financial stability and service provision both in the short and medium term.

Insofar as it can, the council continues to position itself to be best placed to cope with these challenges and it is considered that the council remains a going concern.

The assessment of the going concern of the council will be undertaken annually in the course of preparing the council's Statement of Accounts for each financial year.

