



## Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>29 SEPTEMBER 2015</b>
Title	<b>STATEMENT OF ACCOUNTS 2014/15</b>
Report of	<b>HEAD OF FINANCE AND SECTION 151 OFFICER</b>

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### EXECUTIVE SUMMARY

1. This report seeks approval for the council's Statement of Accounts for 2014/15 following completion of the external audit process, and having given due consideration to the content of the external auditor's annual governance report which is also on the agenda for this meeting of the committee.
2. The Accounts and Audit (England) Regulations 2011 require approval of the Statement of Accounts by members no later than 30 September each year. Following approval, the accounts must be signed and dated by the person presiding at the meeting and published on the council's website, together with the report and opinion issued by the auditor.
3. As soon as reasonably possible after the conclusion of an audit, the council must give notice by advertisement in a local newspaper and on its website that the audit has been concluded and that the Statement of Accounts is available for inspection by electors.

### BACKGROUND

4. The report sets out the council's final accounts for 2014/15 following completion of the audit process. The Accounts and Audit (England) Regulations 2011 require approval of the Statement of Accounts by the council sitting as a whole, or by a committee with delegated powers to make such a decision, on or before 30 September each year.
5. In line with best practice, a report on the draft outturn position and significant changes to accounting policies was considered by the committee on 25 June 2015. Publication of the draft statement of accounts on the council's website is also viewed as good practice, and is consistent with the government's transparency agenda, provided the unaudited status of the draft accounts is clearly signposted. The draft accounts were made available on the council's website shortly after the June meeting of this committee.

6. The responsible financial officer must recertify the presentation of the Statement of Accounts before the committee approves it in September each year. Following approval, the accounts must be signed and dated by the person presiding at the meeting at which approval was given. Once approved, the council must publish the accounts on its website together with any report and opinion issued by the auditors. As soon as reasonably possible after conclusion of the audit, the council must give notice by advertisement in a local publication and on its website that the audit has been concluded and that the audited Statement of Accounts is available for inspection by electors resident in the local area.

## STRATEGIC CONTEXT

7. Approval of the council's annual Statement of Accounts, and the overall stewardship of public funds, form an integral part of the council's corporate governance framework and make a positive contribution towards the achievement of the corporate priority 'Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island's priorities' within the council's Corporate Plan 2015 to 2017. However, there is a need for regular review of the corporate priorities and Medium Term Financial Strategy to ensure the key priorities of the council continue to be deliverable within the reduced resources available to the council, and are consistent with the expected outcomes set out in the Corporate Plan.

## PRESENTATION AND CONTENT

8. To ensure local authorities' statements of accounts are presented on a consistent basis, and to reduce the likelihood of differences in accounting treatment and comparison between authorities, all local authorities prepare their accounts in accordance with the 'Code of Practice on Local Authority Accounting'. The Accounts and Audit Regulations and the Local Government Act 2003 require the council to prepare its accounts each year in accordance with proper practices. For these purposes, proper practices includes the Accounting Code of Practice and other relevant codes of practice and financial reporting standards, which means in practice we have to follow the reporting requirements of each in turn when preparing the financial accounts of the council.
9. The Accounting Code of Practice is a lengthy document which sets out requirements for the format and content of the Statement of Accounts as well as accounting policies to be followed. In addition to the Accounting Code of Practice, local authorities are also required to comply with the reporting requirements of the Service Reporting Code of Practice. Significant departures from the requirements of either of these codes of practice are likely to result in a qualified audit opinion on the content of the financial statements.
10. While undertaking the annual audit on the Statement of Accounts, the external auditors review both the financial statements of the council and the arrangements for securing economy, efficiency and effectiveness in the use of

resources, the value for money conclusion. As such, the auditor's annual governance report to members will cover both their audit opinion on the financial statements of the council and their conclusions on the arrangements for securing value for money.

## PENSION FUND ACCOUNTS

11. Consistent with the reporting requirements of the Accounting Code of Practice, the accounts of the Pension Fund are included with the council's accounts. These accounts have been prepared in accordance with the Accounting Code of Practice and the Financial Reports of Pension Schemes Statement of Recommended Practice (SORP) (revised 2007). The Pension Fund annual report and accounts for the year ended 31 March 2015 were presented to the Pension Fund Committee annual general meeting on 24 July 2015. This included approval of the Knowledge and Skills Framework Compliance Statements contained within the Pension Fund Annual Report.

## 2014/15 STATEMENT OF ACCOUNTS

12. The final Statement of Accounts for 2014/15 is attached at Appendix 1. The annual Statement of Accounts provides details of how the council has performed in financial terms during the previous financial year. It also provides broad information on assets, liabilities and financial reserves at the year-end date, notes on specific entries in the accounts, details of potential significant future liabilities, and details of the accounts of the council's Pension Fund. As stated above, the Statement of Accounts is prepared in accordance with the requirements of the Accounting Code of Practice. A review of the council's main financial activities during 2014/15 and its financial position at 31 March 2015 can be found in the explanatory foreword to the accounts. Details of how the requirements of the code of practice have been met are set out in the Statement of Accounting Policies which follows the explanatory foreword in the accounts.
13. The presentation of the Statement of Accounts in the format required by the Accounting Code of Practice can make it difficult to understand due to the amount of information contained within the accounts. To be of assistance, the explanatory foreword is written in accordance with the Plain English Guide and includes a guide to the main statements included in the accounts; in addition, a glossary of terms is provided towards the end of the full Statement of Accounts and just after the Pension Fund accounts.
14. The draft accounts presented to committee on 25 June 2015 identified that after applying year end carry-forwards the council had a net saving compared to budget of £241,075.
15. The external auditor's annual governance report identifies any errors or material misstatements in the draft financial statements and whether they have been corrected or not. At 11 September 2015, there are no significant issues arising from the audit of the accounts. There are no changes from the financial results identified in the draft accounts, or any significant changes to the accounts themselves, which have previously been made available on the

council's website. Any findings identified in the period until the date of this meeting will be reported by the external auditors at the committee meeting.

## ANNUAL GOVERNANCE STATEMENT

16. The council is required to ensure that the financial management of its operations is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions, including arrangements for the management of risk. In addition, the council must conduct a review at least once each year of the effectiveness of its system of internal control, and approve an Annual Governance Statement (AGS) prepared in accordance with proper practices in relation to internal control. For 2014/15, the AGS was considered and approved by this committee on 25 June 2015. In previous financial years the AGS was included as part of the final Statement of Accounts, however the Accounts and Audit Regulations now require the AGS to accompany any Statement of Accounts the council is obliged to prepare rather than forming a part of it. The AGS for 2014/15 is attached as Appendix 2 for reference.

## CONSULTATION

17. The Accounts and Audit (England) Regulations 2011 require the council's accounts and accounting records to be available for inspection by members of the public for a period of 20 working days. For 2014/15, the accounts and supporting records were open for inspection throughout the period from Monday 20 July to Friday 14 August 2015. The regulations also require local government electors to be notified that the audited statement of accounts is available for inspection as soon as is reasonably possible after the audit has been completed.
18. The Corporate Management Team (CMT) has been consulted on a regular basis with the financial information contained within this report, in particular through draft outturn reports by the head of finance and section 151 officer, and on the arrangements for the carryover of budgets into 2015/16, particularly external grants and funding and slippage, as part of the closing entries for 2014/15. The leader of the council and the deputy leader have also been consulted on the outturn position and carryover arrangements, as has the Scrutiny Committee Budget Task and Finish Group.
19. The managing director and heads of service receive regular budget monitoring reports during the year at CMT, providing up to date financial information and identifying potential budget pressure areas and options for dealing with them. Financial management information is also an integral part of internal management reports which consider performance, risk and finance in-year; such information is then included within quarterly reports to the Executive, and is also considered by the Scrutiny Committee. An overview of the council's financial position and progress with achieving the savings set out in the budget strategy is presented to the Joint Executive/CMT Board on a regular basis during the financial year.

## FINANCIAL / BUDGET IMPLICATIONS

20. The financial information included in this report is collected and monitored internally on a monthly basis. Summary financial information is also provided on a quarterly basis to the Executive and Scrutiny Committee as an integral part of the quarterly performance, risk and finance reporting framework. However, as an annual process, it is necessary to produce financial information in this format to comply with external reporting requirements, codes of practice and the specific requirements of the Accounts and Audit (England) Regulations 2011.
21. The amount of money set aside in reserves and balances at 31 March 2015 within the accounts is necessary to support the budget strategy through the three-year Medium Term Financial Plan period, manage emerging budget pressures and other identified financial risks, as well as being able to provide financial support for key priorities consistent with those set out in the Corporate Plan. In particular there is an increase each year in the highways PFI cash flow reserve. This amount represents a surplus in the early years of the project, generated as a result of the council's contribution and the government grant exceeding the annual amount paid to Island Roads. However, the contract includes a requirement to make a payment of £30 million to Island Roads as a capital contribution in year seven of the contract, and the council's reserve is set aside to facilitate that payment.

## LEGAL IMPLICATIONS

22. The Accounts and Audit (England) Regulations 2011 require approval of the Statement of Accounts by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 30 September each year. The regulations also require the responsible finance officer to re-certify the Statement of Accounts before the committee approves the accounts for publication.
23. Improving financial management standards, as part of the council's performance management framework, is an integral part of the Corporate Plan priority to deliver budget savings through changed service provision. Local authorities have a statutory duty to put in place arrangements for securing value for money and continuous improvement when providing services to local people.
24. The audit of the accounts commenced during July 2015 and the external auditors expect to issue their report and opinion on the accounts before 30 September 2015, the statutory date for publication of the audited Statement of Accounts. As part of that process, the auditors are required to present a report including any relevant matters relating to the audit to those charged with governance under ISA 260 (International Standards on Auditing). The independent report of the external auditor will be presented to the committee during September 2015, prior to issue of their final report and audit certificate to be published with the Statement of Accounts. This will allow members of the committee to consider any issues identified during the audit prior to approving the council's Statement of Accounts for publication.

## EQUALITY AND DIVERSITY

25. The council has a legal duty under the Equality Act 2010 to have due regard to issues of equality and diversity. There are no specific equality and diversity implications arising from the content of this report and approval of the council's Statement of Accounts for any of the protected characteristics. However, equality and diversity is an important governance issue for the council. A full equality impact assessment is in place for the council's Medium Term Financial Strategy. This report and the underlying accounting records of the council set out details of the council's financial performance during 2014/15 and financial position at 31 March 2015. The Statement of Accounts has been compiled in accordance with the requirements of the Accounting Code of Practice, the Service Reporting Code of Practice and International Financial Reporting Standards. Approval of the council's accounts does not breach the statutory duty.

## OPTIONS

26. Options are as follows:

Option 1 – to consider the contents of this report and the council's Statement of Accounts for 2014/15 following consideration of the external auditor's annual governance report to members, and to approve the accounts for publication no later than 30 September; or

Option 2 – to identify areas of concern and not to approve the accounts for publication no later than 30 September, however this would be in breach of the requirements of The Accounts and Audit (England) Regulations 2011.

## RISK MANAGEMENT

27. The key risk relates to not producing and approving the council's Statement of Accounts in accordance with external reporting requirements, codes of practice and relevant financial reporting standards, and the requirements of the Accounts and Audit (England) Regulations 2011. Failure to approve the accounts in accordance with the timeframe set out in the Accounts and Audit Regulations, or comply with relevant reporting standards, would represent a potential risk to the reputation of the council.
28. The council's strategic risk register includes risk SR0051: Lack of financial resource and the ability to deliver the council's in-year and medium term budget strategy. Details of this risk and the actions taken to mitigate it are covered elsewhere on the agenda for this meeting.

## EVALUATION

29. The budget for 2014/15 was approved by Full Council on 26 February 2014. Regular monitoring reports for performance, risk and finance have been provided to the Executive and the Scrutiny Committee throughout the year, including updates on the financial position and delivery of the budget strategy.

In addition to these quarterly reports, a mid-year budget review report was made to Full Council on 17 September 2014, and regular reports on progress with the savings strategy were presented to the Service and Budget Review Steering Group (and its successor the Joint Executive /CMT Board). A programme of robust financial control measures has been in place throughout the year, with the result that, after allowing for the carryover of resources into 2015/16 to meet commitments in that year, the net saving at 31 March 2015 is £0.241 million. Members are asked to approve the council's Statement of Accounts for 2014/15.

### RECOMMENDATION

30. Option 1 - to consider the contents of this report and the council's Statement of Accounts for 2014/15 following consideration of the external auditor's annual governance report to members, and to approve the accounts for publication no later than 30 September.

### APPENDICES ATTACHED

31. [Appendix 1](#) – Annual Governance Statement 2014/15.  
[Appendix 2](#) – Final Statement of Accounts 2014/15

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