

AUDIT AND ACCOUNTS COMMITTEE

25 JULY 2018

APPROVAL OF THE STATEMENT OF ACCOUNTS

1.0 Purpose of Report

- 1.1 To obtain approval by an appropriate Committee of the Council's Statutory Accounts for the financial year ended 31 March 2018.

2.0 Introduction

- 2.1 In accordance with the Accounts and Audit Regulations 2015 there is a legal requirement that the Statement of Accounts for the Council receive approval by an appropriate Committee by the 31 July following the end of the financial year to which the Accounts relate. In accordance with the Council's Constitution and the remit of this Committee, the Statement of Accounts is brought to this Committee for approval. Any changes arising after the distribution of the agenda will be advised at the meeting. If these are significant they will be notified to Members as soon as they become apparent in order to allow Members to consider them prior to the meeting.
- 2.2 The statutory audit of the accounts has been substantially completed and no additional matters from those identified in the Auditor's report are expected to arise.

3.0 Approval of the Accounts

- 3.1 Although the regulations require the accounts to be approved by a resolution of a Committee it should be noted that approval in this context has, to some extent, a different meaning from other Committee resolutions. The Responsible Financial Officer (RFO) for the District Council, the Director of Resources – S151 Officer, retains responsibility for the preparation of the annual accounts and is required to certify that they present a true and fair view of the financial position of the Council at 31 March 2018.
- 3.2 The aim of the Regulations is for Members to demonstrate ownership of the accounting statements. The Statement of Accounts for the District Council has been sent to Members of the Committee with this Agenda. A training session was held on 6th June 2018 to aid Members' understanding of the statement and to address any initial comments.
- 3.3 There is a statutory requirement for the accounts of Newark and Sherwood Homes Ltd and Active4Today Ltd, the Council's two subsidiary companies, to be combined with the District Council's accounts to produce Group accounts which also have to be approved by the 31 July. A deadline of 15 June was agreed with Newark and Sherwood Homes Ltd and Active4Today Ltd and their audited accounts were received by this date.

4.0 Changes made to the Statements

There is a requirement that the external auditor provides details of all of the errors in the financial statements that need amendment within the Report. The audit identified one significant audit difference of £1.992m, which relates to the valuation of Kelham Hall,

below is the list of tables that the adjustment affected. There was also a £0.508m reclassification on the debtors analysis note (page 75) between the relevant descriptions, however this had no overall effect on the total debtors. A small number of presentational adjustments (of non-material value) were found.

List of tables adjusted for Kelham Hall valuation

Expenditure and Funding Analysis (page 24)
Comprehensive Income and Expenditure Statement (page 25)
Movement in Reserve Statement (page 26)
Cash Flow Statement (page 28)
Note to the Expenditure and Funding Analysis (page 51)
Expenditure and Income Analysed by Nature (page 53)
Adjustments between Accounting Basis and Funding Basis under Regulations (page 55)
Other Operating Income and Expenditure (page 60)
Property, Plant and Equipment (page 66)
Assets Held for Sale (page 74)
Revaluation Reserve (page 77)
Capital Adjustment Account (page 78)
Cash Flow Statement Note A (page 82)

Group Consolidated Accounts (pages 103-119)

4.1 The Group statements have been updated to incorporate the changes described above.

Annual Governance Statement

5.0 The Audit and Account Regulations 2015 require the Council to carry out an annual review of the effectiveness of its system of internal control. Having considered the findings of the review members are then required to approve an annual governance statement, prepared in accordance with proper practices in relation to internal control. The Annual Governance Statement has been reviewed and updated for 2017/2018 and is included in the Statement of Accounts. It is reproduced at Appendix A for ease of reference.

Letter of Representation

6.0 The Council's letter of representation to the external auditor attests to the accuracy of the financial statements submitted to the auditors for their analysis. In essence the letter states that all of the information submitted is accurate and that all material information has been disclosed to the auditors. The letter must be signed by the Chairman of the Audit and Accounts Committee and the Responsible Financial Officer. A copy of the letter is attached for information at Appendix B.

7.0 **RECOMMENDATIONS that:**

(a) Members approve the Annual Governance Statement for the financial year ended 31 March 2018;

(b) Members approve the Statement of Accounts for the financial year ended 31 March 2018; and

(c) Members note that as per the previous report the s151 Officer and the Chairman have signed the Letter of Representation.

Background Papers

Nil.

For further information contact Nick Wilson on extension 5317 or Andrew Snape, Assistant Business Manager Financial Services on extension 5523.

ANNUAL GOVERNANCE STATEMENT

1 Scope of responsibility

Newark and Sherwood District Council is responsible for ensuring that the Authority's own and, with the addition of Newark and Sherwood Homes and Active4Today Ltd, its Group business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newark and Sherwood District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Newark and Sherwood District Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

2 The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Newark and Sherwood District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Newark and Sherwood District Council for the year ended 31 March 2018. Since May 2013 the Council has operated governance arrangements through the use of a Committee system. The Financial Regulations within the Council's Constitution were due for review throughout this financial year and were duly updated; being approved at Council on 13th February 2018.

3 The governance framework

The key elements of the District Council's governance framework are as follows:

The District Council has adopted a Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is subject to periodic change either through national legislation or local decision and the Governance Framework may be amended accordingly. Within the

Constitution, the Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*, which was revised in 2016. The Council's Code of Corporate Governance was also reviewed during 2016 to ensure it complied with the requirements of the revised Framework.

The Annual Governance Statement explains how the Council has complied with the code and also meets the requirements of *Regulation 6(1)(a) of the Accounts and Audit Regulations 2015* which require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (*England*).

The Council's strategic priorities are: Prosperity; People; Place; and Public Service. A process to review and refresh these priorities started after the election in May 2015 and these were agreed by full Council in July 2016. The delivery of these priorities is being conducted in accordance with the Governance framework.

During 2017/18 the Council facilitated policy and decision-making through a Committee system. Meetings are open to the public except where exempt or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority.

The District Council has a cross-departmental Risk Management Group that meets regularly to identify and evaluate all significant risks. Strategic, Corporate and Operational Risk Registers are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. In addition to this a Fraud Risk Register is in place and a full refresh took place during 2017/18 facilitated by the Council's Internal Audit contractors Assurance Lincolnshire.

Through reviews by external auditors, external agencies, internal auditors, and its performance team the District Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Services are delivered by trained and experienced people. All posts have a detailed job description and person specification. Training needs are identified through the Performance Appraisal Scheme.

At the end of February 2018, the Council's Chief Executive left the authority and the Deputy Chief Executive was appointed interim Chief Executive, pending the appointment of a new Chief Executive. Since the interim Chief Executive could not also be the Council's Monitoring Officer, the Director – Safety, who is legally qualified, was appointed to the role of Monitoring Officer for this interim period. It is the function of the Monitoring officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. The standards of behaviour for members and employees are defined through Codes of Conduct and the Code of Corporate Governance. The Council also has an Anti-Fraud and Corruption Strategy and a Whistleblowing Policy that enables concerns to be raised confidentially by employees or persons doing business with the Council. Both of these documents were refreshed during the year. A complaints

system is also operated by the Council to enable comments on services to be received and investigated.

The Director of Resources post was recruited to and the appointment was made, commencing 7th August 2017. Up to this point the Business Manager – Financial Services was acting in an interim capacity as the Council's s151 Officer. The Director of Resources post has the s151 Officer responsibilities attached to it. The s151 Officer is responsible for the proper administration of the Council's financial affairs including maintenance of financial records, presentation of statutory accounts and budgets, provision of effective internal audit and financial advice to Council. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

The Council communicates with the community and its stakeholders by means of a periodic publication, "Voice", through its website and through social media and by specific consultation.

4 Review of effectiveness

Newark and Sherwood District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. Business managers provide assurance to the s151 officer that service areas are compliant with the Council's governance arrangements.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution through a dedicated working party comprising, inter alia, all the group leaders, on a regular basis, and has formed a Councillors' Commission to consider any changes resulting from recent legislation and to consider changes to facilitate more effective governance of the Council.

During 2017/18 the overview & scrutiny function was undertaken through Committees with overview & scrutiny principles being embedded in the remits of the Policy and Finance Committee and the three functional committees as well as the Audit and Accounts Committee

Internal Audit is responsible for reviewing the quality and effectiveness of systems of internal control. An annual audit plan is approved by the s151 Officer together with the Corporate Management Team and reported to the Audit and Accounts Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Chief Officer and Business Manager. The report includes recommendations for improvements that are included within an action plan and require agreement or rejection by service managers. The Audit and Accounts Committee receives executive summaries of all internal audit reports and is advised of progress in implementing recommendations. Internal Audit reports are considered by the Council's Corporate Management Team. The Head of Internal

Audit issues an annual opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework. For the 2017/18 financial year, her opinion is that the Council is performing well across the areas of Governance, Risk, Internal Control and Financial Control. Some improvements were identified in the arrangements for the Governance and Internal Control areas. Five reports gave limited assurance (one during 2016/17) relating to:

- ICT starters, leavers and movers
- Estates Management
- Business Continuity
- PCI DSS Compliance
- Performance Management (Strategic Alignment aspect)

Recommendations are being implemented to address the issues raised.

An internal review conducted by the Deputy s151 Officer revealed that almost 40% of the Council's orders for goods and services in the 2017/18 financial year were raised retrospectively. This is being addressed by reminding budget managers of the process for the approval of orders and by including this in the financial training for business managers and budget holders that will take place in July 2018.

External audit review reports are produced by internal audit to inform their risk assessment. The internal audit function is carried out by Assurance Lincolnshire. During 2016, an independent external review of Assurance Lincolnshire was undertaken by CIPFA and no areas of non-compliance with the Public Sector Internal Audit Standards were identified.

Risk management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed.

Conclusion

The Council has assessed the governance arrangements in place throughout 2017/18 and whilst it is considered that the current arrangements provide a satisfactory level of assurance, work is continuously underway to ensure that the arrangements remain fit for purpose in an ever changing external environment.

5 Significant governance issues

Issue	Action	Responsible Officer
<p>Organisational Change</p> <p>In common with all local authorities, the Council will need to continue to make significant changes to its budget to meet changing financial circumstances as a result of the national economic position.</p>	<p>The Council has planned for the continual reduction of central government funding and has actions in place to address the removal of revenue support grant in 2020/21. The MTFP will be updated and presented to full Council for approval in June 2018.</p> <p>Following approval of the Commercialisation Strategy and Investment Plan, a Commercial</p>	<p>Sanjiv Kohli</p> <p>Deputy Chief Executive, s151 Officer</p>

	<p>Group has been established with Key Business Managers from the Council and led by the Deputy Chief Executive/Director of Resources. The Commercials Group has agreed a Programme of service reviews. These reviews are underway and individual options appraisals and outline business cases are being prepared.</p>	
<p>Community and Activity Village</p> <p>The Council has determined that the YMCA is the preferred partner to deliver the Community and Activity Village. The project currently has a funding gap.</p>	<p>Officers are working with all stakeholders to ensure a funding package is in place and that the Sports Hub is delivered and meets the needs of the community.</p>	<p>Kirsty Cole Deputy Chief Executive</p>
<p>Development Company</p> <p>The Council has approved the formation of a wholly owned development company. The Company's primary objective is to develop Market Housing for sale or rent. The Company may also bring forward commercial build.</p>	<p>A number of presentations were made during 2017 and early 2018 to cross-party elected members by the Deputy Chief Executive/ Director of Resources and the Chief Executive.</p> <p>A business case which supported the establishment of the Company was supported by Policy and Finance Committee and was unanimously approved by full Council.</p> <p>The Company has been formed and robust governance arrangements are in place.</p> <p>Progress will be monitored by the Shareholders' Committee which has delegated powers granted by full Council and by the Policy and Finance Committee.</p>	<p>Karen White Director- Safety</p>
<p>Estate Regeneration Programme</p> <p>The Council has been awarded capacity and enabling funding from CLG to consider the next steps in a project to redevelop the Yorke Drive estate and</p>	<p>An approved project timetable is now being delivered and the Council has commissioned Campbell Tickell to project manage this activity. Senior Member and CMT briefings have been held with approval to progress the project to deliver the objective of submitting outline planning application by the</p>	<p>Karen White Director – Safety</p>

Lincoln Road Playing Fields	end of 2018.	
<p>Business Continuity Arrangements.</p> <p>The Council's Business Continuity Plan has been fully revised and was subsequently approved by Corporate Management Team on the 6th March 2018. The plan was subjected to live testing during the bad weather during winter 2018. The Plan has also been shared with partners within Castle House.</p>	The Plan will be subjected to testing in order that it remains relevant to the Council's working arrangements and that those with responsibilities within the plan are aware and fully trained.	<p>Karen White</p> <p>Director - Safety</p>
<p>Counter-fraud arrangements</p> <p>As the Council has no dedicated fraud investigators (due to the transfer to the DWP of that team during December 2015) the Council must look at its arrangements to combat fraud. The Council's Counter Fraud strategy has been amended and approved by Council during 2017/18.</p>	Consideration is being given to what proactive counter-fraud work could be carried out.	<p>Sanjiv Kohli,</p> <p>Deputy Chief Executive,</p> <p>s151 Officer</p>
<p>Compliance with Financial Regulations re. authorisation of goods, works and services.</p> <p>A review by the deputy s151 Officer found that 40% of all orders raised during 2017/18 were raised post the date of the invoice.</p>	<p>The s151 Officer has sent a reminder to all senior managers, business managers and budget holders reminding of the procedure for raising orders for goods, works and services.</p> <p>Training sessions will take place in May/June 2018</p>	<p>Sanjiv Kohli,</p> <p>Deputy Chief Executive,</p> <p>s151 Officer</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for proper governance arrangements to be in place. We will undertake ongoing monitoring of the implementation of any improvements that were identified in our review of effectiveness and as part of our next annual review.

Signed

Kirsty Cole
Interim Chief Executive
25th July 2018

David Lloyd
Leader of the Council
25th July 2018

LETTER OF REPRESENTATION

Dear Mr Gorrie

This representation letter is provided in connection with your audit of the financial statements of Newark and Sherwood District Council (“the Authority”), for the year ended 31 March 2018, 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 Authority and the Group as at 31 March 2018 and of the Authority’s and of the Authority’s and the Group’s expenditure and income for the year then ended;
- ii. 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 2017/18.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

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

The Authority 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 Authority 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 Authority and the Group as at 31 March 2018 and of the Authority’s and the Group’s expenditure and income for the year then ended;
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

2. Measurement methods and significant assumptions used by the Authority 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. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority 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 Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority 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 Authority confirms the following:
 - i) The Authority 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 Authority is not aware of any:
 - a) Fraud or suspected fraud that affects the Authority 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 Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority 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 Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority is not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority 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 Authority has disclosed to you the identity of the Authority'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*.
11. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority'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 Authority and the Group to continue as a going concern.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority 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 Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arising in the UK;
 - 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 and Accounts Committee on 25th July 2018.

Yours sincerely,

Sanjiv Kohli, CPFA
Directors of Resources, S151 Officer

Councillor Sylvia Michael
Chair - Audit and Accounts Committee