

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence

EXECUTIVE PORTFOLIO HOLDER: Cllr Stuart Barker

DATE: 19 July 2018

REPORT OF: Chief Finance Officer

SUBJECT: STATEMENT OF ACCOUNTS 2017/18

PART I

RECOMMENDATION

That the Audit Scrutiny Committee recommend the statement of accounts 2017/18 and letter of representation for approval to Council subject to any final adjustments agreed with the external auditors which will be reported to Council.

1. PURPOSE

To bring an update on the statement of accounts 2017/18 for Members to review and recommend to Council for approval.

2. BACKGROUND

- 2.1** The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual statement of accounts. A committee of the authority or the full Council must approve the statement for 2017/18 by the 31 July.
- 2.2** At the Audit Scrutiny meeting on 21 June the committee was introduced to the draft accounts and the results for the year 2017/18 including those for treasury management. The draft accounts were published on the 31 May.
- 2.3** Our external auditors (Grant Thornton) are completing their audit and will provide their signed opinion by the end of July. Their annual governance report on the accounts has been provided separately on this agenda for consideration. Any final adjustments will be reported to Council on 30 July. Any likely adjustments will be discussed at today's meeting when Grant Thornton submit their findings.
- 2.4** The conclusion of the audit will be published by advertisement on the Teignbridge website as required by legislation. After approval the final accounts will be available on the website or a hard copy can be obtained. Members can access the accounts via this link: [Teignbridge website](#) and a hard copy is available in the Committee section.

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- 2.5** The Chartered Institute of Public Finance and Accountancy (CIPFA) Toolkit for Local Authority Audit Committees published in 2006 recommends the following focus in relation to the committee's review of the financial statements :
- the suitability of accounting policies and treatments
 - any changes in, and compliance with, accounting policies and treatments
 - major judgemental arrears such as provisions
 - significant adjustments and material weaknesses in internal control reported by the external auditor

This report will concentrate on those areas.

3. STATEMENT OF ACCOUNTS 2017/18

- 3.1** The audit of the statement of accounts is currently being finalised and there are no known major adjustments to date. Grant Thornton will discuss any findings separately in their report. There are no adjustments required to the Strata figures consolidated into the accounts of the Council.
- 3.2** The draft balance sheet shows a net worth of £5.6 million at 31 March 2018 compared to a negative net worth of £7.5 million at 31 March 2017. This is due mainly to a decrease in the pension fund deficit, an increase in the value of our property, plant and equipment, an increase in our earmarked reserves, capital receipts and capital contributions unapplied.
- 3.3** The regulations require the formal approval of the accounts and this will be signified by the Chairman of the Council signing and dating the accounts on the page entitled The Statement of Responsibilities for the Statement of Accounts at the Council meeting. This statement is from the Chief Finance Officer and will be signed by him before presentation of the accounts to the Council meeting.

3.4 Accounting Policies and Treatments

Note 1 of the notes to the financial statements identifies the accounting policies which follow CIPFA recommendations in the latest Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The most significant policies relate to property, plant and equipment, charges to revenue, accruals, pensions, reserves and provisions as follows:

- All expenditure over £10,000 on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis in the accounts. These are valued on the basis recommended by CIPFA and in accordance with The Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The majority of assets are valued at fair value with some at depreciated historical cost. Property, plant and equipment excluding land are depreciated over their remaining useful life on a straight line basis.
- Charges for depreciation and impairment are made to the comprehensive income and expenditure account by direct allocation to the relevant service and then reversed out in the movement in reserves statement. Capital charges

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therefore help show the true cost of services but have a neutral impact on the amount required to be raised from council tax.

- The accounts are maintained on an accruals basis in accordance with the Code of Practice on Local Authority Accounting. That is all sums due to or from the council during the year are included whether or not the cash has actually been received or paid in the year.
- Accounting for the council's defined benefit pension scheme is prepared under the requirements of International Accounting Standard 19. Thus entries are made in the accounts and the valuation of liabilities is shown in the balance sheet. The notes explain that the cost of benefits is charged as they are earned but this cost is reversed out so that the charge against council tax is based on the cash payable in the year.
- Reserves are maintained to meet general rather than specific future expenditure although some can be earmarked for specific purposes. Provisions are only recognised when there is a liability that is of uncertain timing or amount. Provisions are required where Teignbridge has a present obligation as a result of a past event.

3.5 Provisions

The main provisions are those for bad debts (now described as an impairment allowance for bad debts) and the most significant of these are for sundry debtors, council tax, and national non domestic rates. These are as follows:

- A provision of £540,000 or 14% has been made against a year end balance of £3,850,000 for sundry debts. The majority of the debt relates to housing benefit overpayments where arrangement for regular affordable payments has been made. 20% is provided for small older debts still outstanding with specific appropriate provision for individual large debts. Write offs in the year were £157,000 or 1.0% of debt raised in year (2016/17 £186,000 or 1.6% of debt raised in year).
- The council tax gross debt at the year end was £3,266,000 (2016/17 £3,354,000) and write offs in the year were £276,000 (2016/17 £139,000). The write offs have remained low for each of the last five years at less than 0.3% of the debit raised. The debit raised in the year was £103 million. The bad debt provision for 2017/18 has been reduced by £30,000 to £640,000 being 20% of the balance.
- For national non domestic rates the gross balance at the year end was £397,000 (2016/17 £492,000). Write offs were £114,000 (2016/17 £90,000). The value of the bad debt provision has been reduced by £40,000 being 65% of the debt due. Write offs have remained low for each of the last five years at less than 0.5% of the debit raised. The debit raised in the year was £38 million.

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3.6 External Auditor Reports

All reports from Grant Thornton regarding internal control and any other relevant matters and the officer responses for review are brought to this audit scrutiny committee. The specific comments on these accounts are in the Annual Governance Report (AGR) which is on this agenda. The accounts adjustments suggested/noted in the AGR can be discussed by the committee at that item together with the draft management letter.

3.7 Letter of Representation

Our external auditor requires assurances from us on various financial matters including statutory and contractual requirements, reasonableness of estimates and provisions, responsibility for internal controls, various disclosures and information provided. These are detailed in the attached letter which needs recommendation for approval at full Council.

4. MAIN IMPLICATIONS

The main implication that Members need to be aware of is that preparation and approval of the accounts is required by the Accounts and Audit Regulations 2015 and that if these regulations are not complied with the external auditor could qualify the accounts.

5. GROUPS TO BE CONSULTED

The draft accounts have been advertised as available for inspection and published on the website. As required by legislation these will be updated with the final version including the external audit opinion and Grant Thornton annual audit letter when available. There is also a brief introduction on the website.

6. WITNESSES TO BE CALLED

None, but the external auditor will be in attendance at the audit scrutiny committee meeting if there are any relevant questions that need to be answered.

7. TIME-SCALE

Members' approval and publication of the accounts for the year ended 31 March 2018 is required by 31 July 2018.

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8. CONCLUSION

The draft accounts have been prepared in accordance with the relevant legislation and current best professional practice. They await finalisation of the external audit by Grant Thornton and any final adjustments will be reported to Council for approval on 30 July 2018.

Martin Flitcroft
Chief Finance Officer

Wards affected	All
Contact for any more information	Martin Flitcroft on 01626 215246 or Claire Moors on 01626 215242
Background Papers (For Part I reports only)	2017/18 Year End Working Files The Accounts and Audit Regulations 2015 The Chartered Institute of Public Finance and Accountancy Toolkit for Local Authority Audit Committees 2006 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 The Statement of Valuation Principles and Guidance Notes – The Royal Institution of Chartered Surveyors Financial Reporting Standards
Key Decision	Yes
In Forward Plan	Yes
In O&S Work Programme	No