

Agenda Item 14
Report SAC 06/12

Report to: **Standards and Audit Committee**

Date: **13 September 2012**

By: **Chief Finance Officer**

Title of Report: **Letter of Representation and Revised Statement of Accounts**

Purpose of Report: **To recommend to the Committee the Letter of Representation and the revised Statement of Accounts 2011/12**

Recommendation: The Committee is recommended to:

- a) note the findings of the Audit Commission (external auditor) in their Annual Governance Report (AGR) elsewhere on this agenda.**
 - b) note the results of the public inspection of the accounts (paragraph 6.2 in the report).**
 - c) approve the letter of representation on behalf of the Authority (Appendix 1 of this report).**
 - d) approve the audited Statement of Accounts for 2011/12 (Appendix 4 of this report).**
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1 Introduction

- 1.1 Under the Accounts and Audit Regulations 2011, the South Downs National Park Authority's Statement of Accounts for 2011/12 must be approved by Members by the 30 September 2012. Under the Committee's terms of reference, the Standards and Audit Committee is charged with this responsibility.
- 1.2 The external auditor (Audit Commission) is required to give assurance that the Statement of Accounts is free from material misstatement and to report significant matters arising from the audit.
- 1.3 The external auditor has conducted their audit of the Statement of Accounts and has recommended only a relatively small number of adjustments prior to issuing their opinion and the publication of the accounts.
- 1.4 This report presents the revised 2011/12 Statement of Accounts following the audit (**Appendix 4**). It outlines the amendments made to the statements since they were originally produced at the end of June and provides assurances to the Standards and Audit Committee in relation to the preparation of the Statement of Accounts. It also informs the Committee of the outcome of the public inspection of the accounts.

2 Background

- 2.1 The main legislative requirements relating to the preparation, publication and audit of the Authority's accounts are contained in the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011 made under Section 27 of the 1998 Act.
- 2.2 It is a requirement that the annual accounts should be prepared as soon as practicable after the end of the financial year and considered by a Committee or the Full Authority, and approved by

a resolution of that Committee or the Full Authority by the 30 September.

- 2.3 The accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

3 Format of the Statement of Accounts

- 3.1 The Authority is required to present its financial statements on an International Financial Reporting Standards (IFRS) basis and adopt the IFRS based Code of Practice on Local Authority Accounting (the Code).

- 3.2 The purpose of the Statement of Accounts is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the Authority and to provide answers to basic questions such as:

- What did the Authority's services and capital programme cost in 2011/12?
- Where did the money come from?
- What does the Authority own?
- What commitments does the Authority have and what provisions and reserves has the Authority set against these?
- What amounts were due and what was owed at the end of the financial year?

- 3.3 In accordance with the Accounts and Audit Regulations, the Statement of Accounts includes an explanatory foreword, a statement of responsibilities together with the core financial statements, supplementary statements and the notes to the accounts.

- 3.4 The Statement of Accounts would normally comprise both "Single Entity Accounts", which are in respect of wholly Authority controlled activities, and "Group Accounts" in respect of activities where the Authority has a significant interest or share in a subsidiary, associate or joint venture entity. However, as last year, there are no other activities requiring the preparation of Group Accounts in 2011/12.

- 3.5 The Single Entity core financial statements included within the Statement of Accounts comprise the following:-

- Movements in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Financial Statements
- Statement of Accounting Policies

- 3.6 The explanatory foreword included in the Statement of Accounts aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A brief commentary on the key aspects of the 2011/12 Statement of Accounts is included in **Appendix 2** to this report.

- 3.7 The external auditor has completed work on the audit of the accounts and will be reporting their findings to this Committee through the Annual Governance Report elsewhere on this agenda. Following this report, the Auditor will be able to issue their audit opinion and the accounts will be published.

4 Preparation of the Statement of Accounts

- 4.1 The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2011/12, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) (the Code). There has been no deviation from the requirements of the Code and all accounting policies adopted by the Authority for the 2011/12 Statement of Accounts are in line with the requirements of the Code.

- 4.2 The accounts have been prepared by appropriately qualified and trained officers from Brighton & Hove City Council as the Authority's financial support service provider who have undertaken extensive training on the new requirements for preparing local government financial statements and notes under IFRS. Finance officers who are involved in the preparation of the Statement of Accounts attend regular training to ensure an up to date knowledge and continuous professional development.
- 4.3 Officers have made reference to CIPFA's Practitioner's Guidance Notes, disclosure checklists and other technical guidance in preparing the Statement of Accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely with the external auditor both during the preparation of the financial statements and the audit of the accounts.
- 4.4 The Authority makes a number of critical judgements, accounting estimates and assumptions in the preparation of the financial statements; the details are disclosed in note 3 to the financial statements.
- 4.5 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers of Brighton & Hove City Council. Following this review, the Unaudited Statement of Accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit.
- 4.6 During the accounts audit process, officers liaise closely with the external auditor in respect of audit queries and work closely to ensure prompt and successful resolution of these queries. During the audit of the 2011/12 accounts, there have been no disputes between officers and the external auditor over required amendments to the accounts.

5 Audit of the Statement of Accounts 2011/12

- 5.1 The Auditor has completed the audit of the Authority's accounts and their Annual Governance Report (AGR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money which forms part of this Committee's agenda.
- 5.2 The AGR for 2011/12 states that the financial statements were internally consistent and supported by good quality working papers and that only a relatively small number of non-trivial errors were found which have been corrected. Details of these amendments and the financial statements affected are included in **Appendix 3** of this report.
- 5.3 Compilation of the financial statements relies on data extracted from the financial systems operated by Brighton & Hove City Council, as financial support service provider, and the Authority, including those systems which interface into the financial system. It is therefore important for the external auditor to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them. Continuing control weaknesses have been identified by the auditors within the payroll system supplied to the Authority. However, the external auditor undertook additional substantive testing, which did not identify any cases of error or fraud. Recommendations by the Audit Commission to monitor the financial support service provider's arrangements to improve the controls relating to the payroll system are included in Appendix 5 of the AGR.

6 Public Inspection of the Accounts

- 6.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a 4-week period to the Authority's Unaudited Statement of Accounts and are invited to enquire on any aspect of the Accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the Accounts with the Audit Commission.
- 6.2 Members are advised that the Authority received no enquiries in respect of its Accounts.

7 Resources

- 7.1 There are no resource implications from this report.

8 Risk Management

- 8.1 There has been no direct risk assessment for this report.

9 Human Rights, Equalities, Health and Safety

9.1 There are no implications arising from this report.

10 External Consultees.

10.1 None.

NIGEL MANVELL Chief Finance Officer

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Appendices	<ol style="list-style-type: none">1. Letter of Representation2. Commentary on Statement of Accounts3. Details of Amendments to the Statement of Accounts4. Revised Statement of Accounts 2011/12
SDNPA Consultees	Louise Read, Kevin Gardner, Strategic Management Team

To:

**Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ**

South Downs National Park Authority - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of South Downs National Park Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of South Downs National Park Authority

I confirm that the this letter has been discussed and agreed by the Standards and Audit Committee on 13 September 2012

Signed

Name: Nigel Manvell

Position: Chief Finance Officer

Date: 13 September 2012

Commentary on the Statement of Accounts

Comprehensive Income and Expenditure Account (CI&E) (should this not refer to the Movement in Reserves Statement (MiRS))

The level of General Fund balance held at 31 March 2012 was £1.713 million; this represents the working balance of the Authority and is deemed appropriate by the Authority's Chief Finance Officer. In addition, there are also earmarked reserves of £3.421 million.

Segmental Reporting

The Code includes a requirement to disclose segmental reporting information with the aim to disclose information to enable users of the Authority's financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates. Information on reportable operating segments is presented in note 22 and includes the following;

- An analysis of the income and expenditure for each segment which includes those items of income and expenditure that are reported as part of the Authority's internal management reporting;
- A reconciliation between the segment reporting analysis and the cost of services in the Comprehensive Income and Expenditure Statement;
- A reconciliation between the segment reporting analysis and an analysis of total income and expenditure (i.e. a subjective analysis);
- Information on services included within each operating segment.

Reportable operating segments are based on the Authority's internal management reporting.

Balance Sheet (BS)

This statement is particularly technical, which is unavoidable given the requirement to observe the requirement of the Code and the complex capital accounting, financial instrument and pension reporting standards. There are explanatory notes to the Balance Sheet in the Statement of Accounts.

Non Current Assets

The level of non current assets was **£0.171** million as at 31 March 2012. The in-year movement in non current assets is detailed in note 11 to the core financial statements. The downward movement of £0.019 million relates to the following:

- New additions of £0.019 million
- Depreciation on non current assets of £0.038 million

Investments

At 31 March 2012, the Authority had cash and cash equivalents totalling £8.050 million of which £2.535 million was invested externally. Investments are made by the treasury team at Brighton & Hove City Council under the Financial Support Service contract. Note 23 to the financial statements provides further information on investments.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose and there is a balance of £3.421 million at 31 March 2012. Details of Earmarked Reserves held can be found in the note 7 to

the financial statements.

Pension Liability

The pension liability (net of pension assets) was £0.054 million at 31 March 2012. The Authority also recognises a reserve for the expected net pension liability. Therefore, amounts included in the Authority's accounts in relation to post employment benefits have no effect on the overall financial position as the Liability is offset by a Pensions Reserve.

Provisions

Provisions have been made in the accounts for liabilities existing at the 31 March 2012 that are reasonably certain and can be estimated with reasonable accuracy. Provisions are included for the following:-

Accumulated Absences £0.061 million – this relates to employee's accumulated compensated absences (e.g. annual leave and flexi-leave) that are carried forward for use in future accounting periods where the current period's entitlements are not used in full.

Details of amendments to the Statement of Accounts

Balance Sheet

(Note 23 – Financial instruments, Note 24 – Debtors, Note 25 – Creditors)

Debtor accruals of £223,000 were incorrectly netted off against the creditor accrual of £1,175,000 for income and expenditure arising from the determination of small scale planning applications. This led to an understatement of both short term debtors and creditors on the balance sheet. These amounts have now been correctly disclosed gross in the financial statements and relevant notes.

Comprehensive Income and Expenditure Statement and Balance Sheet

(Note 23 – Financial Instruments, Note 25 – Creditors)

The external auditor identified a duplicated creditor accrual of £17,000 but was satisfied that this was an isolated error and not systemic. Short term creditors and expenditure were therefore overstated by £17,000 which has now been corrected.

Balance Sheet

(Note 14 – Property Plant and Equipment, Note 24 - Debtors)

A payment of £75,000, made in 2010/11, relating to the acquisition of Capron House was capitalised and disclosed as an asset under construction. Officers agree that this sum should have been disclosed on the Authority's balance sheet as a payment in advance as part of debtors. A prior period adjustment has been made to correct this and prior period adjustments have also been made to correct entries made in 2010/11 to finance this capital expenditure.

Note to the Cash Flow Statement (Note 21 – Cash and cash equivalents)

There was a misclassification of £5,000 between the 2010/11 non-cash movement for the increase in creditors and the contribution to provisions lines in the reconciliation of the net cash flow from operating activities to the surplus on the provision of services table in note 21. This has been corrected.

Note 26 – External Audit Costs

Changes were required to the disclosure of audit costs in 2010/11 and 2011/12, which have been disclosed net of rebates issued during the year. The 2010/11 disclosure was increased by £7,000, the 2011/12 disclosure was reduced by £4,000. These changes have been made to note 26.

Note 10 – Grant Income and Contributions

The disclosure of grant income received from Natural England in the table showing government revenue grants was understated. This has been corrected.