

The Highland Council

27 October 2016

Agenda Item	
Report No	

Annual Audit Report and Accounts

Report by Director of Finance

Summary

The purpose of this report is to present to Council, the External Audit report on the 2015/16 Audit.

1. Background

- 1.1 The new Local Authority Accounts (Scotland) Regulations 2014 introduced a range of new requirements for local authorities and auditors. One of these requirements was the formal reporting and signing of the audited accounts.
- 1.2 Previously this annual report to members was produced after the completion of the audit and presented to members for consideration, usually at the next Council meeting in December.
- 1.3 The new Regulations required the completion of the audit by 30 September, and as part of this completion process, for the auditor's report and findings to be considered by the appropriate Council Committee. This consideration had to take place, and the Committee to agree the report and its findings, before the accounts could be signed off.
- 1.4 The Auditor's report was considered by Audit & Scrutiny Committee at its meeting on 29 September, and the Committee agreed to accept the report and approved the formal signing of the accounts. However since the report is addressed to all Members of the Council it is now brought to Council for consideration, and is attached as Appendix 1 to this report. A link to the audited accounts is:
http://www.highland.gov.uk/downloads/file/16738/audited_accounts_2015_to_2016

2. Discussion

- 2.1 The Key Messages are on pages 3 and 4 of the Auditor's report. The main factor for the Council is that the auditor's report is unqualified.
- 2.2 The new Regulations required an acceleration of the accounts and audit process, and this could only be achieved through close working and co-operation between Finance and Audit Scotland staff. In general, performance was better this year than previously, although the report does highlight further areas for improvement.
- 2.3 A key change to the Council's accounts was a significant improvement to the Management Commentary. This has been updated and is attached as Appendix 2 to this report.

- 2.4 The unaudited accounts, presented to Council in June, reported a surplus for the year of £6.394m. After completion of the audit this figure has changed by £0.801m, to an actual surplus of £5.593m. Appendix 3 details the main changes to the Council's accounts, predominately as a result of information that came to light after the submission of the unaudited accounts.
- 2.5 Whilst scope for improvement is always key to providing a best value service, the challenge of reducing budgets, and reductions in staff across all Council services, will provide a challenge to continuous improvement.
- 2.6 The Action Plan is included in Appendix IV to the auditor's report, including officers' comments and agreed actions.

3. Implications

- 3.1 There are no specific issues to highlight other than those referred to within the report. The Auditor's report is an important part of the overall external scrutiny and governance of the Council, and the agreed action plan reflects improvements that the Council has agreed to make.

Recommendation

The Council is asked to note that the Auditor's report was approved by Audit & Scrutiny Committee at its meeting on 29 September. The Council is now asked to consider the report and note the agreed actions.

Designation: Director of Finance

Date: 17 October 2016

Author: Derek Yule

Background Papers: None

Movements in the 2015-16 General fund surplus

£m	
6.394	General fund surplus per unaudited accounts
-1.250	Equal pay provision- post balance sheet event. A provision was made to pay for the costs of post-implementation equal pay claims. This provision was made as a result of the scope of the claim being narrowed and a reasonable estimate of the likely settlement able to be made.
0.529	Costs of HRA voluntary redundancies- audit adjustment. The VR costs of HRA staff had originally been charged to the general fund. These costs were later corrected to be charged against the HRA.
0.257	Reversal of Goods Received Not Invoiced (GRNI) accrual- audit adjustment. Reversal of invoices that had actually been paid incorrectly included in creditor balances.
-0.551	Inverness Airport Business Park loan accounting treatment- audit adjustment. The loan to IABP was written down to its present value using the Financial Instruments Adjustment Account- this treatment has been revised with the value of the adjustment now showing against the General Fund.
0.214	Recording of revenue income as capital- audit adjustment. Some income was incorrectly recorded as capital when in fact it was revenue.
5.593	Revised General Fund surplus per audited accounts

Movements in the 2015-16 Housing Revenue Account

50.426	HRA spend per unaudited accounts
-0.937	Rent voids offset against rental income- audit adjustment
49.489	HRA spend per audited accounts
50.426	HRA income per unaudited accounts
-0.937	Rent voids offset against rental income- audit adjustment
-0.529	Cost of HRA Voluntary Redundancies as above
0.853	Recording of revenue income as capital- audit adjustment. Some income was incorrectly recorded as capital when in fact it was revenue.
49.813	HRA income per audited accounts

Movements in Reserves

12.455	General Fund non-earmarked reserve per unaudited accounts
-0.801	total of movements in general fund surplus per above
11.654	General Fund non-earmarked reserve per audited accounts
15.391	General Fund earmarked reserve per unaudited accounts
3.365	Reversal of accrued pension strain costs associated with voluntary redundancy in 2015-16- audit adjustment. Pension strain costs for agreed leavers under voluntary redundancy in 2016-17 will be recognised in the 2016-17 accounts. Funding will be drawn down from this reserve when the costs are paid.
18.756	General Fund earmarked reserve per audited accounts

Movements in Net Assets

1,217.678	Net assets per unaudited accounts
-1.250	Equal Pay provision as above
0.257	Reversal of Goods Received not Invoiced as above
3.365	Reversal of accrued pension strain costs as above
4.126	Other adjustments not affecting General Fund
1,224.176	Net assets per audited accounts