

HAMPSHIRE COUNTY COUNCIL**Report**

Decision Maker:	Audit Committee
Date:	29 September 2016
Title:	Statement of Accounts – 2015/16
Reference:	7755
Report From:	Director of Corporate Resources

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1. Executive Summary

- 1.1. The Accounts and Audit Regulations 2015 require the County Council's Statement of Accounts, including the Accounts of the Hampshire Pension Fund, to be approved by the Chief Financial Officer by 30 June and by Members by 30 September following the year end. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.
- 1.2. The external audit of the Statements is nearing completion and the conclusions of the audit are contained within the external auditor's report, which is also on this agenda.
- 1.3. The end of year financial report for 2015/16 was considered by Cabinet on 20 June 2016 and the Statement of Accounts is consistent with that report.
- 1.4. This report presents for the Committee's approval the Statement of Accounts 2015/16 together with letters to the auditor containing representations by the Chief Financial Officer and members of the Committee regarding information and systems of internal control to confirm that the accounts present a true and fair view. The report also recommends that the Director of Corporate Resources be given delegated authority to make any minor amendments if required by the external auditor prior to the issue of the audit opinion.

2. Code of Practice on Local Authority Accounting

- 2.1. The attached Statement of Accounts has been drawn up in the form prescribed by the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.

- 2.2. For 2015/16, the main change is that the previous explanatory foreword is replaced with a narrative statement. This has been structured to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The statement provides information about Hampshire, including the key issues affecting the Council and its accounts and provides a summary of financial and non-financial performance.

Statement of Accounts

- 2.3. The Statement of Accounts comprises a number of separate statements, the key features of which are summarised in the following paragraphs.

Movement in Reserves Statement

- 2.4. This statement sets out the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and unusable reserves (not cash-backed). Further detail of the unusable reserves is included in note 16 of the Statement of Accounts.
- 2.5. The statement also shows the statutory General Fund Balance before and after the transfers to and from earmarked reserves as approved by Cabinet in June 2016.

Comprehensive Income and Expenditure Statement

- 2.6. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement of Reserves Statement and the difference between them is itemised in note 6 of the Statement of Accounts.
- 2.7. For 2015/16, the accounting net cost of services is lower than 2014/15. The main reasons for this are additional funding for Adult Services from the Better Care Fund and other Government grants and lower spending on highways in line with savings plans. The inclusion of the EM3 Local Enterprise Partnership within the County Council's accounts (as the County Council is accountable body) results in an increase in net expenditure for planning and development services.
- 2.8. The cost of services shown in the Comprehensive Income and Expenditure Statement is presented in accordance with proper accounting practice. A different presentation is adopted for the County Council's management accounts. Note 18 of the Statement of Accounts reconciles the final outturn position that was reported to Cabinet in June 2016 to the cost of services in the Comprehensive Income and Expenditure Statement.
- 2.9. The bottom line position for the Comprehensive Income and Expenditure Statement shows an accounting surplus for 2015/16 compared to a deficit in 2014/15. This arises from the actuarial gain on pension fund assets and liabilities in 2015/16 compared to a loss in 2014/15. Whilst this is included in the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice, it is offset by movements in unusable reserves in the Balance Sheet and so does not impact on the general fund balance for council tax purposes.

- 2.10. The inclusion of other comprehensive income and expenditure such as net gains on the revaluation of assets and the actuarial gain or loss on pension fund assets and liabilities, creates a bottom line figure on the Comprehensive Income and Expenditure Statement equal to the change in net worth on the Balance Sheet.

Balance Sheet

- 2.11. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves; either usable (£497 million) or unusable (£2.1 billion).
- 2.12. The majority of the County Council's net worth is tied up in the value of its property, plant and equipment, primarily the replacement value of land and buildings, which to the extent that it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. This value would only become usable if the County Council was to dispose of all its fixed assets at their balance sheet value.
- 2.13. Unusable reserves are reduced by the pension reserve. This reserve was introduced a few years ago as a mechanism for recognising in the balance sheet the County Council's actuarially assessed pension liability as measured under IAS19 (previously FRS17) without requiring the liability to be recognised in setting council tax. The County Council's pension net liability has reduced as at March 2016, from £1,100 million to £1,040 million. This arises from an increase in the value of pension fund assets and a reduction in the present value of pension liabilities mainly as a result of the change in actuarial assumptions, including a higher discount rate as at 31 March 2016.

Cash Flow Statement

- 2.14. The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change.

Notes to the accounts

- 2.15. These comprehensive notes incorporate information to give the reader information to support the accounts. The accounting policies are incorporated within the notes.

Hampshire Pension Fund

- 2.16. The accounts of the Hampshire Pension Fund show that there was a surplus of contributions over benefits payable in the year of nearly £21 million, that net investment income was £102 million, and that the market value of investments reduced by £25 million. Overall there was a net increase in the net assets of the fund of £76 million from £5.1 billion to £5.2 billion.

Statement of Responsibilities for the Statement of Accounts

- 2.17. This statement records the responsibility:
- of the local authority to appoint an officer with responsibility for the proper administration of its financial affairs. Within the County Council, this is the Director of Corporate Resources
 - of the Director to prepare the accounts in accordance with proper

practices as set out in the Code of Practice, and to certify that the accounts present a true and fair view of the Authority

- of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the Committee.

Annual Governance Statement

- 2.18. The Annual Governance Statement has to accompany the Statement of Accounts. The County Council's Statement was approved by the Audit Committee in June 2016.

3. Next steps

- 3.1. In order to conclude the audit opinion, the external auditor requires written representations by the Chief Financial Officer and members of the Audit Committee confirming their confidence in and reliance on information and systems of internal control thus enabling them to confirm that the accounts for the County Council and the Hampshire Pension Fund present a true and fair view. Copies of the letters to be signed at the meeting of the Audit Committee are attached at Appendix 1.
- 3.2. The County Council is required to publish its Statement of Accounts by 30 September 2016. Should any minor amendments to the Statements be required prior to the issue of the audit opinion and to the publication of the Statement of Accounts, it is recommended that the Director of Corporate Resources be authorised to make any such amendment. The Statement of Accounts including the audit opinion will be published on Hantsweb.

4. Recommendations

- 4.1. That the Statement of Accounts for 2015/16 be approved.
- 4.2. That the letters of representation for Hampshire County Council and the Hampshire Pension Fund attached at Appendix 1 be signed.
- 4.3. That delegated authority be given to the Director of Corporate Resources to approve any minor amendments to the Statement of Accounts prior to the issue of the final audit opinion and publication of the Statement of Accounts.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:

It relates to the effective Governance of the County Council.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Reference</u>
2015/16 End of year financial report	7478

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

This report does not have any impact on equality objectives.

2. Impact on Crime and Disorder:

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. This report has no impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change



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Direct Line 01962 847400

Your reference

Date 29 September 2016

E-mail carolyn.williamson@hants.gov.uk

Dear Maria

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Hampshire County Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members and management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local

Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members and management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are 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 us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held through the year and through to the date of this letter.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related

party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 31 to the financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than the events described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Yours sincerely,

Carolyn Williamson, Chief Financial Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 29 September 2016

Councillor Keith Evans, Chair, Audit Committee



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<i>Date</i>	29 September 2016	<i>E-mail</i>	carolyn.williamson@hants.gov.uk

Dear Richard

This representation letter is provided in connection with your audit of the financial statements of the Hampshire Pension Fund (“the Pension Fund”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of the Pension Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions

received in respect of active members of the Pension Fund and for making accurate representations to you.

2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the Pension Fund involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
3. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
4. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the Audit Committee and Pension Fund Panel (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date [22 July 2016].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Pension Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme year or subsequently.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

F. Subsequent Events

1. Other than the events described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Advisory Reports

1. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions/payment schedule.

H. Independence

1. We confirm that no trustee of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that the Pension Fund has made no direct investment in derivative financial instruments.

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2016 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:

- We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

L. Investment managers' control reports ISAE 3402

1. The latest reports available do not all cover the whole of the 2015/16 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours Sincerely,

Carolyn Williamson, Director of Corporate Resources

I confirm that this letter has been discussed and agreed at the Audit Committee on 29 September 2016

Cllr Keith Evans

Chair, Audit Committee