

HAMPSHIRE COUNTY COUNCIL

Report

Decision Maker:	Audit Committee
Date:	26 July 2017
Title:	Statement of Accounts 2017/18
Report From:	Deputy Chief Executive and Director of Corporate Resources

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1. Recommendations

- 1.1. That the Statement of Accounts for 2017/18 for Hampshire County Council and the Hampshire Pension Fund be approved.
- 1.2. That the letters of representation for Hampshire County Council and the Hampshire Pension Fund attached at Appendix 1 be signed.
- 1.3. That delegated authority be given to the Deputy Chief Executive and 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.

2. Executive Summary

- 2.1. 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 31 May and by Members by 31 July following the year end. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.
- 2.2. The external audit of the Statements has been completed and the conclusions of the audit are contained within the external auditor's report, which is also on this agenda.
- 2.3. The end of year financial report for 2017/18 was considered by Cabinet on 18 June 2018 and the Statement of Accounts is consistent with that report.
- 2.4. This report presents for the Committee's approval the Statement of Accounts 2017/18 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 Deputy Chief Executive and 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.

3. Code of Practice on Local Authority Accounting

- 3.1. The attached Statement of Accounts has been drawn up in the form prescribed by the 2017/18 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.
- 3.2. For 2017/18, the code required no significant changes in the presentation or compilation of the accounts.

4. Statement of Accounts 2017/18

- 4.1. The key features of the Statement of Accounts are summarised in the following paragraphs.

Statement of Responsibilities for the Statement of Accounts

- 4.2. 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 Deputy Chief Executive and 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.

Narrative Report

- 4.3. The narrative report provides information about the key issues affecting the Authority, and reports on the Authority's financial and non-financial performance.
- 4.4. The narrative statement is designed to help readers understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

Movement in Reserves Statement

- 4.5. 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 which are mainly used for accounting adjustments).

Balance Sheet

- 4.6. 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 (£646 million) or unusable (£2.7 billion).
- 4.7. 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.
- 4.8. Unusable reserves are reduced by the pension reserve. This reserve provides a mechanism for recognising in the balance sheet the County Council's actuarially assessed pension liability as measured under IAS19 without requiring the liability to be recognised in setting council tax. The County Council's pension net liability has increased as at March 2018, from £1,2017 million to £1,340 million. Whilst the value of pension fund assets increased by over £85 million in the period, this was offset by a larger increase in the present value of pension liabilities mainly as a result of the change in actuarial assumptions, including a higher rate of future inflation and increased longevity.

Cash Flow Statement

- 4.9. 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.

Comprehensive Income and Expenditure Statement

- 4.10. 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 summarised in the Expenditure and Funding Analysis note 1 and itemised in note 2 of the Statement of Accounts.
- 4.11. 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.

Notes to the accounts

- 4.12. These comprehensive notes incorporate information to give the reader information to support the accounts. From 2017/18 the accounting policies are incorporated within the relevant disclosure note with the general policies included towards the end of the notes.

Hampshire Pension Fund

- 4.13. The accounts of the Hampshire Pension Fund show that there was a surplus of contributions over benefits payable in the year of just over £40 million, that net investment income was £112 million, and that the market value of investments increased by £165 million. Overall there was a net increase in the net assets of the fund of £276 million from £6.3 billion to £6.6 billion.

Annual Governance Statement

- 4.14. The Annual Governance Statement has to accompany the Statement of Accounts. The County Council's Statement is presented elsewhere on this agenda.

5. Next Steps

- 5.1. 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.
- 5.2. The County Council is required to publish its Statement of Accounts by 31 July 2018. 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 Deputy Chief Executive and Director of Corporate Resources be authorised to make any such amendment. The Statement of Accounts including the audit opinion will be published on Hantsweb.

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.)

Document

Reference

Hampshire County Council Audit Results
Report

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:

The future approach for collecting declarations will need to consider 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.

Maria Grindley
Executive Director
Ernst & Young
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Forbury Road,
Reading RG1 1YF

Appendix 1

Carolyn Williamson

cw/ks

01962 847400

26 July 2018

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 2018. 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 2018 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 2017/18.

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 2017/18.
2. We acknowledge, as members of 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 2017/18. 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 of 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 2017/18, 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. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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 Committee (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 26 July 2018.
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 [period] 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.

D. 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.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the fair value of property, plant and equipment and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Pensions Liability and PPE Valuations Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

L. Retirement benefits

5. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours sincerely,

Carolyn Williamson, Chief Financial Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 26 July 2018

Councillor Keith Evans, Chair, Audit Committee

Carolyn Williamson

cw/ks

01962 847400

28 September 2017

carolyn.williamson@hants.gov.uk

Dear Maria

This letter of representations is provided in connection with your audit of the financial statements of *Hampshire Pension* ("the Fund") for the year ended 31 March 2018. 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 financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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

6. 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 2017/18.
7. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
8. We acknowledge, as members of management of the Fund, 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 and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.
9. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

10. As members of management of the Fund, we believe that the Fund 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 2017/2018 that are free from material misstatement, whether due to fraud or error.
11. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. 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.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others
 - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

7. 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.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
8. You have been informed of all changes to the Fund rules.
 9. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 10. We have made available to you all minutes of the Audit Committee and Pension Fund Advisory Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
 11. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund'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.
 12. We have disclosed to you, and the 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.
 13. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
 14. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. Liabilities and Contingencies

3. 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.
4. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
5. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Pension Fund Annual Report.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no trustees 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.

H. Derivative Financial Instruments

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

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary AON Hewitt as at 31 March 2018 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.

L. 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 2017/18 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, Chief Financial Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 26 July 2018

Cllr Keith Evans

Chair, Audit Committee