

**Report of the Deputy Chief executive**

**Report to Corporate Governance and Audit Committee**

**Date: 19<sup>th</sup> September 2014**

**Subject: Audited Statement of Accounts and the Value for Money Assessment 2013/14**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. KPMG have issued their audit report to this Committee (see attached). The report provides:
  - an unqualified opinion on the 2013/14 Statement of Accounts;
  - There are no unadjusted audit differences affecting the main financial statements;
  - a view that the Annual Governance Statement is not misleading or inconsistent with information they are aware of from their audit of the financial statements;
  - a value for money conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
2. To date the Council has not identified any post balance sheet event requiring amendment to the accounts.
3. The accounts have been certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31<sup>st</sup> March 2014.

**Recommendations**

4. Members are asked to receive the report of the Council's external auditors on the 2013/14 accounts and to note that there are no audit amendments required to the Accounts.

5. Members are asked to approve the final audited 2013/14 Statement of Accounts and the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
6. On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
7. Note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **1 Purpose of this report**

- 1.1 This Committee agreed to release the unaudited 2013/14 Statement of Accounts for public inspection on the 11<sup>th</sup> July 2014. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

## **2 Background information**

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council's statutory finance officer, the Director of Resources, has certified that the Statement of Accounts presents a true and fair view of the financial position of the Council. On completion of the Audit, the regulations also require that the accounts are approved by resolution of a Committee and published, together with the auditor's opinion and report.

## **3 Main issues**

### **3.1 Key External Audit Findings**

#### **3.1.1 Audit Opinion**

KPMG have determined that the 2013/14 accounts give a true and fair view of the Council's financial position and they are therefore proposing to issue an unqualified audit opinion.

#### **3.1.2 Audit Differences**

On conclusion of the audit, KPMG identified no significant audit difference which required amendment to the accounts.

#### **3.1.3 Audit Risks**

KPMG's Financial Statements Audit Plan, as reported to this Committee on the 21<sup>st</sup> January 2014, identified one main area of risk in compiling the financial statements for 2013/14, Namely the Council's level of contingent liabilities and the risk that a significant amount should be classified as a provision and so impact on the Council's bottom line. KPMG have now audited this area and have not identified any issues which would indicate that these contingent liabilities have been incorrectly classified. The disclosed contingent assets and liabilities will remain under review until the accounts are approved and any significant changes will be verbally reported to Committee.

#### 3.1.4 Audit recommendations

The audit report identifies two recommendations (see Appendix 1 of KPMG's report). Both are low priority issues and officers have outlined their response and the timetables for action within the appropriate part of the appendix. There are no outstanding recommendations from previous years which require further Council action.

#### 3.1.5 Use of Resources

KPMG are required to report to those charged with governance, any governance issues identified when discharging their statutory audit responsibilities. They have therefore included in their report an update on the Council's arrangements to secure value for money in its use of resources.

KPMG have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### 3.1.6 Review of the Annual Governance Statement

KPMG have confirmed that, in their opinion, the statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

### **3.2 Post Balance Sheet Events**

3.2.1 Under proper accounting practice the Council is required to consider any post balance sheet events which, if known at the time of the accounts being produced, would have significantly altered the Council's financial statements. If such events have occurred then the Council is required to amend the accounts if the cumulative value of the events would have a material impact on the Council's financial statements. Such events must be considered up until this Committee approves the final accounts and the auditors provide their audit certificate.

3.2.2 As at the 20th September there have been no such events which would require the accounts to be amended.

3.2.3 As outlined in para 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. As such a verbal update will be provided at Committee to confirm the final position.

### **3.3 Public Inspection Queries**

3.3.1 Under the statutory timescales for public inspection of the accounts, the Council has had a number of enquiries requesting information in respect of PFI schemes; and Kirkgate Market. Under statute, stakeholders have the right to question the auditors and request either an amendment to the accounts or the issuing of a public inspection report. As at the writing of this report, no questions have been raised to the auditors on these or any other issues.

### **3.4 Management Representation letter**

3.4.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give audit

such assurances. In respect of the 2013/14 accounts the letter is attached as **Appendix A** to this report. After consultation with appropriate officers, the Deputy Chief Executive has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.

- 3.4.2 The Committee is asked to consider whether members are aware of any issues they want to bring to the auditors attention in respect of the matters addressed in the management representation letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 As this is a factual report based on past financial performance no public, Ward Member or Councillor consultation or engagement has been sought.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 As this is a factual report based on past financial performance there are no direct implications for equality, diversity, cohesion and integration.

### **4.3 Council policies and City Priorities**

- 4.3.1 As this is a factual report based on past financial performance there are no direct implications for Council policies or City priorities.

### **4.4 Resources and value for money**

- 4.4.1 KPMG's report includes an audit opinion on whether the Council has proper arrangements for securing value for money.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 The Accounts and Audit (England) Regulations 2011 require the audited Statement of Accounts to be published before the 30<sup>th</sup> September. Under this Committees terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.
- 4.5.2 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

### **4.6 Risk Management**

- 4.6.1 External Audit did not identify any significant risks in their recommendations.

## **5 Conclusions**

- 5.1 The external audit report provides the following assurances to members:
- An unqualified opinion on the 2013/14 Statement of accounts.
  - A value for money conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
  - Confirmation that in the auditor's opinion the Council's Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.
- 5.2 There are no high priority recommendations raised by External Audit.

- 5.3 As at the writing of this report there have been no significant post balance sheet events identified.
- 5.4 To date there are no public inspection queries which have require amendments to the accounts.

## **6 Recommendations**

- 6.1 Members are asked to receive the report of the Council's external auditors on the 2013/14 accounts and to note that there are no audit amendments required to the Accounts.
- 6.2 Members are asked to approve the final audited 2013/14 Statement of Accounts and the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
- 6.3 On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
- 6.4 Note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **7 Background documents<sup>1</sup>**

- 7.1 None.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## **Appendix A**

(Letterhead of Client)

Mr J Prentice  
KPMG LLP  
5<sup>th</sup> Floor - Public Sector Audit  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

19 September 2014

Dear John

Leeds City Council – Audit of Accounts 2013-14

This representations letter is provided in connection with your audit of the financial statements of Leeds City Council (“the Authority”) for the year ended 31 March 2014, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### **Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority’s and the Group’s expenditure and income for the year then ended;
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14; and
  - iii. The financial statements have been prepared on a going concern basis.
2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representations letter.

### **Information provided**

5. The Authority has provided you with:
  - access to all information of which it is 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 the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - ii) The Authority has disclosed to you all information in relation to:
    - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and
    - b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions*,

*Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

The financial statements disclose all of the uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.

Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved, have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

Additional representations to address specific circumstances of the client:

13. All revaluations carried out by the in-house valuer as at 31 March 2014 that have a material effect, either individually or in aggregate, on the carrying value of Property, Plant and Equipment have been reflected in the financial statements.

14. Information provided to and used by the in-house valuer for determining the value of items of Property, Plant and Equipment, for example future cash flow assumptions, are consistent with the Authority's management information and with the requirements of IAS 36 and IFRS 13.

15. In respect of the NNDR appeals provision:

- Management has based the estimate on all available information at the balance sheet date; and
- There are no material subsequent events which would require any adjustment to the accounting estimates and disclosures included in the financial statements.



This letter was tabled and agreed at the meeting of the Corporate Governance and Audit Committee on 19 September 2014.

Yours Sincerely

Chair, Corporate Governance and Audit Committee

Deputy Chief Executive

## **Appendix to the Representations Letter of Leeds Cty Council: Definitions**

### **Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

### **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

### **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

### **Related parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.