

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 16th September 2016

Subject: Approval of the Audited Statement of Accounts and KPMG Audit Report

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 completed their audit of the final accounts, and the report of their findings is attached. The main points are that :
 - KPMG anticipate being able to issue an unqualified opinion on the 2015/16 Statement of Accounts;
 - There are no unadjusted audit differences affecting the financial statements;
 - The review of the Annual Governance Statement has concluded that it is not misleading or inconsistent with information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance;
 - The review of value for money arrangements has concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
2. The accounts have been certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31st March 2016.

Recommendations

3. Members are asked to receive the report of the Council's external auditors on the 2015/16 accounts and to note that there are no unadjusted audit differences to the accounts.

4. Members are asked to approve the final audited 2015/16 Statement of Accounts and the Chair is asked 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.
5. On the basis of the assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
6. Members are asked to note KPMG's VFM conclusion that the council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

1 Purpose of this report

- 1.1 At its previous meeting in June, the Committee considered the unaudited 2015/16 Statement of Accounts prior to their being made available for public inspection. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.

2 Background information

- 2.1 In accordance with the Accounts and Audit Regulations 2015, the Council's Responsible Financial Officer, the Deputy Chief Executive, 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 2015/16 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 unadjusted audit differences which required amendment to the accounts.

3.1.3 Audit Risks

KPMG's Financial Statements Audit Plan, as reported to this Committee on 18th March 2016, identified one area of significant risk in compiling the financial statements for 2015/16. This was the valuation of property, plant and equipment. KPMG have now audited this area and have identified one valuation which they wished to comment on, given its materiality. The council's new waste treatment

facility acquired under a PFI contract has been valued on a DRC (depreciated replacement cost) basis, as is required for specialist assets for which there is no active market. KPMG have requested a specific item within the Management Representation letter confirming that the valuation complies with accounting standards and RICS (Royal Institute of Chartered Surveyors) guidance. Officers from Asset Management have confirmed that they can give an assurance that this is the case.

3.1.4 Audit recommendations

KPMG have made one recommendation in relation to processes for reviewing related party transactions for Members and senior officers. Related parties are organisations or individuals with whom the council could enter into transactions with other than on an arms-length commercial basis, because of a relationship that exists between them and the council. The council had agreed with a previous KPMG team some years ago that the disclosures for both Members and senior officers would consist of an explanation of the council's governance arrangements which ensure that Members and officers do not take part in decisions in which they could be seen to have an interest, thus removing the potential for transactions to be on a non-arms-length basis. However the current KPMG team have recommended that the council reviews this approach and re-introduces a process for checking the detail of related party transactions for Members and senior officers. This recommendation will be addressed as part of the 2016/17 accounts process.

In addition KPMG's report notes that their review of IT controls has identified some areas for improvement, which will be covered in detail in a separate report to the next meeting of the committee.

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 ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

3.1.6 Review of the Annual Governance Statement

KPMG have confirmed that, in their opinion, the Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government : A Framework'.

3.2 Post Balance Sheet Events and other significant amendments

- 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 7th September the council has identified one post balance sheet event which is sufficiently material to require an adjustment to be made to the final accounts. The provision for appeals on business rates has been increased by £3m to £23.2m. The increase is partly as a result of additional information on the Valuation Office's approach to appeals in the Trinity area, and partly based on settled appeals during 2016/17. £1.5m of this increase will fall upon the council in future years.
- 3.2.3 As a result of the increase in the business rates appeals provision, the council's levy payable to the Leeds City Region pool has reduced by £0.3m. The accrual for this payment has therefore been reduced, and the amount has instead been added to reserves.
- 3.2.4 In addition, the council has made a number of significant amendments to the accounts since the draft accounts were presented to the committee in June. Officers have reviewed the revaluations of fixed assets over the summer and identified corrections which increase the value of the council's assets by a net £0.3m, with an increase of £2.6m in General Fund assets and a £2.3m reduction in the value of HRA dwellings classed as 'Assets held for sale'. The correction to the value of HRA dwellings involved an increase of £16.3m in HRA impairment charges and a reduction of £14m in the loss on disposal of fixed assets.
- 3.2.5 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £65m, in comparison to the £66m shown in the draft accounts.
- 3.2.6 As outlined in para 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. A verbal update will be provided at Committee to confirm the final position.

3.3 Public Inspection Queries, Questions to the Auditors and Objections

- 3.3.1 Under the statutory timescales for public inspection of the accounts, the Council has had no requests for information from members of the public.
- 3.3.2 Under statute, local electors have the right to question the auditors and request either an amendment to the accounts or the issuing of a public inspection report. One individual who stated that they were an elector contacted KPMG with a series of questions and an objection, all of which related to the council's use of LOBO (lender option borrower option) loans. However, on investigation KPMG have discovered that the individual was not a registered elector for Leeds. They have therefore concluded that the objection is not eligible to be considered under the relevant legislation.
- 3.3.3 KPMG have however satisfied themselves as part of their audit work that the Council's use of LOBO loans is appropriate, and that the issues raised in the letter do not give cause for concern.

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 KPMG such assurances. In respect of the 2015/16 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 The audit report does not raise any issues requiring consultation or engagement with the public, ward members or Councillors.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

- 4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

4.4 Resources and value for money

- 4.4.1 KPMG's report includes their opinion as to 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 Regulations 2015 require the audited Statement of Accounts to be published before the 30th September. Under this Committee's 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 KPMG have not identified 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 2015/16 Statement of accounts.
- A value for money conclusion that the has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- 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, and that it complies with CIPFA/SOLACE guidance.

5.2 There are no high priority recommendations raised by KPMG.

5.3 There are no outstanding objections to the accounts from electors.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2015/16 accounts and to note that there are no unadjusted audit differences to the accounts.

6.2 Members are asked to approve the final audited 2015/16 Statement of Accounts and the Chair is asked 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 Members are asked to 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 documents¹

7.1 None.

¹ 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.