

Report of the Chief Finance Officer

Report to Corporate Governance and Audit Committee

Date: 22nd September 2017

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 :
 - Subject to clarification that the outcome of an elector objection would not have a material impact on the authority's financial statements, KPMG anticipate being able to issue an unqualified opinion on the 2016/17 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 Chief Finance Officer as a true and fair view of the Council's financial position as at 31st March 2017. A copy of the final version of the accounts for approval is included with this report.
3. During the public inspection period, one objection was received from a local elector. As a result, KPMG have indicated that although they are hopeful of being

able to issue an opinion on the accounts by the deadline of 30th September, there is likely to be a delay in formally closing their audit for the year.

Recommendations

4. Members are asked to receive the report of the Council's external auditors on the 2016/17 accounts and to note that there are no unadjusted audit differences to the accounts.
5. Members are asked to approve the final audited 2016/17 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. 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.
7. 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.
8. Members are asked to note that there is one objection to the accounts which is still under consideration by KPMG, which is expected to result in a delay in the completion of the overall audit.

1 Purpose of this report

- 1.1 At its previous meeting in June, the Committee considered the unaudited 2016/17 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 Chief Finance Officer, 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

Subject to confirmation that the outstanding elector objection does not have the potential to have a material impact on the financial statements, KPMG have indicated that they are satisfied the 2016/17 accounts give a true and fair view of the Council's financial position. Provided that the potential impact of the objection has been sufficiently clarified by then, they anticipate being able to issue an unqualified audit opinion by 30th September.

A verbal update will be provided to the committee on the latest position in relation to the LOBO objection and any implications it has for the 2016/17 financial statements.

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 External Audit Plan, as reported to this Committee on 7th April 2017, identified two areas of significant risk in compiling the financial statements for 2016/17. These were the valuation of property, plant and equipment and the valuation of net pension liabilities. KPMG have now audited these areas and have not identified any material errors. However they have made one recommendation in relation to the valuation of property, plant and equipment, as noted below.

3.1.4 Audit recommendations

KPMG have made one recommendation, in relation to the assumptions involved in the valuation of property, plant and equipment. KPMG have identified that although there is an ongoing process of discussion between the finance team and valuers, this is not formally documented. KPMG have recommended that the

council introduces a more formal documented review covering the assumptions involved in asset valuations, to demonstrate that there has been an appropriate level of challenge for the assumptions used.

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 13th 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 £4.48m to £27.7m. The increase is as a result of a number of high-value appeals being settled at a greater reduction than the average which was assumed in the provision estimated at the balance sheet date. £2.19m 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 £0.4m. The accrual for this payment has therefore been reduced, and the amount has instead been added to reserves.

3.2.4 There is one further amendment which affects the level of the general fund reserve. The council has identified that the provision included in the draft accounts for the council's liability to the government under the CRC (Carbon Reduction Commitment) scheme was understated. A review within the Energy Unit has identified that a change in the scheme in 2014/15 which brought electricity on street lighting and other unmetered supplies within the scope of the scheme was overlooked, and thus the council will be required to purchase additional allowances for the years from 2014/15 onwards. The impact on the accounts will

be to increase the provision for CRC liabilities by £1.1m and to reduce the general fund reserve by the same amount.

- 3.2.5 In addition, officers have reviewed the revaluations of fixed assets over the summer and identified corrections which reduced the value of the council's General Fund assets by a net £19.7m. This was largely due to £20m held within assets under construction which should have been included in the cost of completed capital schemes which were revalued at the year end.
- 3.2.6 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £368m, in comparison to the £391m shown in the draft accounts.
- 3.2.7 As outlined in paragraph 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, one formal objection to the accounts was made by a local elector. This was on the subject of the council's use of LOBO (lender option borrower option) loans.
- 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. The objection received by KPMG asks them to issue a public interest report and to apply to the courts for a declaration that the council's decisions to borrow via LOBOs was irrational and unlawful. Similar objections have been received by many local authorities throughout the country for 2015/16 and 2016/17. So far as the council is aware, none of the concluded objections made at other local authorities has so far resulted in any LOBO loans being declared unlawful.
- 3.3.3 The council has provided full documentation to KPMG to support the appropriateness of its decisions to borrow using LOBOs, and KPMG are reviewing this. KPMG have indicated that due to the volume of documentation to be reviewed, the review of this objection is likely to lead to a delay in issuing a final audit certificate.
- 3.3.4 During the public inspection period, the council also received a request for additional information on the subject of LOBOs. A response has been made to this request.

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 2016/17 accounts the letter is attached as **Appendix A** to this report. After consultation with appropriate officers, the Chief Finance Officer 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.

3.5 Appointment of external auditors from 2018/19

3.5.1 The council has been notified by Public Sector Audit Appointments Ltd that they propose to appoint Grant Thornton as the council's auditors for the five year period starting with the 2018/19 accounts. As the consultation period for the council to respond to this proposal expires at 5pm on 22nd September, a briefing note about the consultation was circulated to members of the committee in advance of this meeting. The briefing note asked members to contact the Chief Finance Officer to discuss any issues they wished to raise about the proposed appointment of Grant Thornton. An update will be given at the meeting on any issues which have been raised.

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 An elector objection has been received to the council's use of LOBOs, which claims that the council's decisions to borrow via LOBOs were irrational and therefore unlawful. The power for the council to borrow is given under the Local Government Act 2003, and the council is not aware of any case law to date relating to challenges to decisions taken under these powers. The council is

satisfied that it has fulfilled the requirements arising from the Act and subsidiary regulations in exercising its powers to borrow via LOBOs.

4.5.3 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 :

- A proposed unqualified opinion on the 2016/17 Statement of Accounts, subject to clarification regarding the outstanding elector objection.
- A value for money 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.
- 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 is one objection to the accounts from an elector, which KPMG are reviewing.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2016/17 accounts and to note that there are no unadjusted audit differences to the accounts.

6.2 Members are asked to approve the final audited 2016/17 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.

6.5 Members are asked to note that there is one objection to the accounts which is still under consideration by KPMG, which is expected to result in a delay in the completion of the overall audit.

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.