

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 30th September 2011

**Subject: Audited Statement of Accounts and the Value for Money Assessment
2010/11**

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 Appendix 1**). The report provides:
 - an unqualified opinion on the 2010/11 Statement of Accounts;
 - confirms that audit have not identified any adjustments to the accounts; and
 - a view that the Annual Governance Statement complies with the CIPFA/SOLACE framework and that it is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

The report also updates members on the work ongoing on the audit opinion as to whether the Council has appropriate arrangements for securing value for money.
2. KPMG have provided a £3,000 rebate on the audit fee.
3. One material post balance sheet event has occurred with HMRC accepting that the Council is entitled to reclaim VAT on trade waste. This has resulted in a £8.4m payment to the Council, reflecting the reclaimed VAT and interest. The resulting income has been recognised in the 2010/11 accounts and transferred to the Council's General Fund reserves.
4. The accounts have been re-certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31st March 2011.

Recommendations

5. Members are asked to receive the report of the Council's external auditors on the 2010/11 accounts and to note the amendments made to the Accounts.
6. Members are asked to approve the final audited 2010/11 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.
7. 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.
8. Note the work to date on the VFM audit opinion and to receive at Committee verbal confirmation of the final opinion.
9. Note the rebate KPMG have given in respect of the Audit fee.

1 Purpose of this report

- 1.1 This Committee agreed to release the unaudited 2010/11 Statement of Accounts for public inspection on the 18th July 2011. 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 re-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 2010/11 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 did not identified any audit difference which required amendment to the accounts. However, on completion of the audit working papers, Council officers identified that the figure used for the teachers holiday accrual had been incorrectly recorded in the financial statements. The required amendment has increased the Children's and Educational Services net expenditure in the Comprehensive Income and Expenditure Statement by £3.0m. However, under statute, such charges are reversed out of the statement and do not therefore impact on the Council's bottom line.

3.1.3 Audit Risks

In their Financial Statements Audit Plan, as reported to this Committee on the 21st March 2011, KPMG identified three main areas of risk in compiling the financial statements for 2010/11. The three risks were in respect of the Council's financial standing and financial planning in year; the accurate valuation of Council assets and the International Financial Reporting Standards conversion process. KPMG's audit report recognises that all three risks have been addressed and makes only one recommendation in respect of financial standing as outline in para 3.1.4 below.

3.1.4 Audit recommendations

The audit report identifies one recommendation which requires the Council to continually monitor its Medium Term Financial Plan and to take appropriate early interventions to manage any financial pressures. The management response identifies the processes in place to comply with this recommendation. 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 a few areas of audit work to complete but it is anticipated that for 2010/11, KPMG will be able to confirm at the Committee meeting 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 complies with the CIPFA/SOLACE framework and that it 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 Up until receipt of the audit certificate, any significant post balance sheet event which arose due to events happening before the 31st March 2010, should be adjusted in the accounts. A review of the Council's accounts since they were released for public inspection has identified one such event.

3.2.2 The Council has recently been successful in a VAT claim to HMRC on the fees charged for the collection of trade waste. A claim was submitted in March 2009 relating to the period from 1974 to March 2008. The claim was made on the basis of anomalies between European VAT legislation and the guidance issued by

HMRC, and that the collection of trade waste was a non-business, rather than a taxable business activity.

- 3.2.3 In August 2011, HMRC agreed to pay the Council £3.665m plus interest of £4.767m, a total of £8.432m.

3.3 Management Representation letter

- 3.3.1 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. Attached as **Appendix 2** to this report is the management representation letter designed to give audit such assurances in respect of the 2010/11 accounts. After consultation with appropriate officers, the Director of Resources has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter. 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 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.

3.4 Audit Fee

- 3.4.1 At the request of this Committee KPMG agreed to review the audit fee upon completion of the audit to identify whether any efficiencies gained through the audit process could be passed back to the Council. Audit efficiencies have been achieved, mainly through the provision of electronic working papers, and consequently the Council has been given a rebate on the £530,383 audit fee of £3,000.

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 As this is a factual report based on past financial performance there are no direct implications for resources. The report does however include 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 30th 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 In respect of the 2010/11 Statement of Accounts this report provides an update on past performance and so there are no significant risks. External Audit did identify a key risk in their recommendation in respect of the Council's budget monitoring. This risk is however included in the risk register and this Committee is not requested to make any decisions in relation to this issue.

5 Conclusions

5.1 The external audit report provides the following assurances to members:

- An unqualified opinion on the 2010/11 Statement of accounts.
- That as at the timing of this report, there are no issues which would suggest that the Council had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Confirmation that in the auditors opinion the Council's Annual Governance Statement complies with the CIPFA/SOLACE framework and that it is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

5.2 External Audit have made one recommendation for 2011/12. Namely the continual monitoring of the Medium Term Financial Plan and to take early intervention to manage financial pressures. The Council has put in place arrangements to comply with this recommendation.

5.3 One material post balance sheet event has been identified which needs to be accounted for in the accounts. This event has resulted in the Council reclaimed VAT and interest totalling £8.4m. This additional income has increased the Council's reported surplus and has been carried forward in the General Fund Reserve.

5.4 Officers have identified one significant adjustment required to the final accounts in respect of the teachers holiday accrual. This adjustment has no impact on the Council's bottom line.

5.5 KPMG have given the Council a £3,000 rebate on the Audit fee.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2010/11 accounts and to note the amendments made to the Accounts.

6.2 Members are asked to approve the final audited 2010/11 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 the work to date on the VFM audit opinion and to receive at Committee verbal confirmation of the final opinion.

6.5 Note the rebate KPMG have given in respect of the Audit fee.

7 Background documents

7.1 KPMG ISA 260 Report 2009/10 and 2009/10

7.2 KPMG Interim Report 2010/11

7.3 Accounts and Audit (England) Regulations 2011

7.4 Amended accounts for Leeds City Council 2010/11.