

Report of the Chief Finance Officer

Report to Corporate Governance and Audit Committee

Date: 30th July 2018

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 are nearing completion of their audit of the final accounts. However at the time of writing this report a small number of issues remain to be resolved, and thus a final report on their audit findings is not yet available. The audit report will be published once it becomes available.
2. The accounts will be certified by the Chief Finance Officer as a true and fair view of the Council's financial position as at 31st March 2018. A copy of the revised accounts as at 20th July is included with this report, however it should be noted that further amendments may be required.
3. During the 2017/18 public inspection period, no objections were received from local electors. However the elector objection from 2016/17 relating to LOBO loans has not yet been resolved. As a result, KPMG have indicated that although they are hopeful of being able to issue an opinion on the 2017/18 accounts by the deadline of 31st July, there may be a delay in formally closing their audit for the year. The usual deadline for closing the audit is 31st August, following the audit of the council's Whole of Government Accounts return.

Recommendations

4. Members are asked to receive the report of the Council's external auditors on the 2017/18 accounts and to note its findings.

5. Members are asked to approve the final audited 2017/18 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 included within their final audit report.
8. Members are asked to note that there is an outstanding objection to the 2016/17 accounts which is still under consideration by KPMG, and which may result in a delay in the completion of the overall 2017/18 audit.

1 Purpose of this report

- 1.1 At its previous meeting in June, the Committee considered the unaudited 2017/18 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, will certify 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

At the time of writing this report, a final audit report from KPMG has not yet been received. Their report will be published once it becomes available.

3.1.4 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.

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 20th July the council has identified one post balance sheet event which requires an adjustment to be made to the final accounts. The provision for appeals on business rates has been increased by £1.0m, of which £0.5m will fall on the council in future years. There has been a resulting minor reduction in the council's levy payable to the Leeds City Region pool of £43k, and this amount has instead been added to reserves.
- 3.2.3 Officers have reviewed the revaluations of fixed assets during June and July, and identified corrections which have increased the value of the council's assets by a net £8.3m.

- 3.2.4 The council's accounting policy is to value its fixed assets as at 1st April. This is for practical reasons to allow the large number of valuations which must be carried out each year to be undertaken on the basis of reliable data. The local authority accounting Code of Practice requires that where an authority uses a valuation date earlier than 31st March it must satisfy itself that its valuations are not materially different from those which would have been made at 31st March. A transaction is material under the Code if omitting or misstating it could influence the decisions made by users of the accounts, and thus the materiality required for a local authority varies depending on the item affected. Published indicators for build costs show a rise between 1st April 2017 and 31st March which if applied to those of the council's assets which are valued on a depreciated replacement cost basis would result in an increase of £53m, increasing the value of Property, plant and equipment on the council's balance sheet from £5.20bn to £5.25bn. There would be a corresponding increase in non spendable capital reserves. KPMG have requested that the council make this amendment due to the different materiality constraints of auditing standards, although there is some doubt as to whether it would be a material item as defined by the Code
- 3.2.5 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £383m, in comparison to the £323m shown in the draft accounts.
- 3.2.6 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, no formal objections or requests for additional information have been received for the 2017/18 accounts. However the objection received in 2016/17 on the subject of the council's use of LOBO (lender option borrower option) loans remains unresolved.
- 3.3.2 KPMG have indicated that they are hopeful of resolving this issue in the near future, and that it would not prevent them from issuing an opinion on the 2017/18 accounts. However there may be a delay in closing the 2017/18 audit beyond the usual timescale of 31st August, which is the deadline for auditors to complete their review of councils' Whole of Government Accounts returns.

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 2017/18 accounts, a draft of this letter is attached as **Appendix A** to this report. However KPMG have indicated that depending on the outcome of unresolved audit issues, they would request an amendment to the wording of this letter if the outcome is that there are non-material audit differences which the council determines not to amend in its

accounts. Once this position has been clarified, the Chief Finance Officer will consult with appropriate officers and will sign 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 Future audit of the Housing Benefit Subsidy grant claim

- 3.5.1 The committee will be aware that the appointment of Grant Thornton as our auditors from 2018/19 onwards relates only to the main statement of accounts audit. Councils were required by the Department of Work and Pensions to separately procure auditors to audit their housing benefit subsidy grant claims for 2018/19 onwards. The council has carried out a tendering exercise and has appointed Mazars LLP to carry out this audit work.

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 will include 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 on or before the 31st July. 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 Chief Finance Officer will sign the final audited version of the accounts confirming them as a true and fair view of the Council's financial position as at 31st March 2018

5.2 KPMG's external audit report will provide assurances to members covering their opinion on the accounts, their opinion on the council's value for money arrangements, and their conclusions on the Annual Governance Statement.

5.3 There is one outstanding objection to the 2016/17 accounts from an elector, which KPMG are hopeful of resolving in the near future.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2017/18 accounts and to note its findings.

6.2 Members are asked to approve the final audited 2017/18 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 included within their final audit report.

6.5 Members are asked to note that there is one objection to the 2016/17 accounts which is still unresolved, and which may result in a delay in the completion of the overall 2017/18 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.