

**Report of the Director of Resources**

**Report to Corporate Governance and Audit Committee**

**Date: 28<sup>th</sup> September 2012**

**Subject: Audited Statement of Accounts and the Value for Money Assessment 2011/12**

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 2011/12 Statement of Accounts;
  - confirms that audit has identified one significant adjustments to the accounts related to the transfer of a school to academy status; 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.
  - a value for money (VFM) 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 identified five post balance sheet events. Cumulatively these events are not deemed material and as such there is no requirement to retrospectively adjust the 2011/12 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 2011.

## **Recommendations**

4. Members are asked to receive the report of the Council's external auditors on the 2011/12 accounts and to note the amendments made to the Accounts.
5. Members are asked to approve the final audited 2011/12 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 2011/12 Statement of Accounts for public inspection on the 4<sup>th</sup> July 2012. 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 2011/12 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 one significant audit difference which required amendment to the accounts. This related to the planned transfer of a school to academy status in 2011/12. The transfer was incorrectly accounted for in 2011/12 as the actual transfer had been delayed into the new year. The resulting amendment to the accounts has had no impact on the Council's bottom line and procedures have been updated to ensure that this does not reoccur in the future.

In addition to the above issue there have been a small number of minor and presentational changes made to the accounts. The impact of all changes to the accounts are summarised in section 3 of KPMG's report.

### 3.1.3 Audit Risks

KPMG's Financial Statements Audit Plan, as reported to this Committee on the 27<sup>th</sup> February 2012, identified three main areas of risk in compiling the financial statements for 2011/12. The three risks were in respect of the Council's ability to meet the required savings target; the reasonableness of the Council's componentisation policy and the compliance with new accounting standards. KPMG's audit report recognises that all three risks have been addressed.

### 3.1.4 Audit recommendations

The audit report identifies two recommendation (see Appendix 1 of KPMG's report). The first relates to a weakness in procedures for ensuring planned academy school transfers have not been delayed until after the 31<sup>st</sup> March. The second relates to quality assurance procedures to ensure correct valuations are included in the accounts for heritage assets. In both cases procedures have now been amended to ensure correct supporting documentation is obtained to verify the transactions. 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 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 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 20<sup>th</sup> September there have been five such events, mainly relating to the settlement of contractual disputes. The cumulative impact of these events on the Council's General Reserve would be £581k. This is not deemed significant by KPMG and the Council is therefore not required to retrospectively adjust the accounts. Consequently the financial impact of these events will be accounted for in 2012/13.
- 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 details of expenditure on city centre properties. 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 of the 20<sup>th</sup> September 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 2011/12 accounts the letter is contained in the attached KPMG report as appendix 5. 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.
- 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 identified two risk in their recommendations and officers have established new procedures and controls to mitigate these risks.

## **5 Conclusions**

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

- An unqualified opinion on the 2011/12 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 auditors opinion the Council's Annual Governance Statement complies with the CIPFA/SOLACE framework.

5.2 External Audit have made two recommendation, namely improvements to the system for recording the transfer of schools to academy status and the quality assurance process for heritage assets. The Council has put in place arrangements to comply with these recommendations.

5.3 As at the 20<sup>th</sup> September 2012 there have been five post balance sheet events identified. It has been determined that these events do not have a material impact and as such they have not been adjusted for in the 2011/12 accounts.

5.4 KPMG have identified one significant adjustment required to the final accounts in respect of the transfer of a school to academy status. This adjustment has no impact on the Council's bottom line.

5.5 To date there are no public inspection queries which have lead to amendment of the accounts.

## **6 Recommendations**

- 6.1 Members are asked to receive the report of the Council's external auditors on the 2011/12 accounts and to note the amendments made to the Accounts.
- 6.2 Members are asked to approve the final audited 2011/12 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>**

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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.