



**Report for:
DECISION**

Item Number: 7

Contains Confidential or Exempt Information	No
Title	Audit Committee consideration of the Council's Annual Statement of Accounts.
Responsible Officer(s)	Ian O'Donnell Executive Director of Corporate Resources Maria G Christofi Director of Finance
Author(s)	Nigel Watson Assistant Director of Corporate Finance Ruairi Hughes Finance Manager - Control Brian Thompson Interim Head of Financial Control and Reporting
Portfolio(s)	Finance and Performance – Councillor Yvonne Johnson
For Consideration By	Audit Committee
Date to be considered	23 September 2014
Implementation Date if Not Called In	N/A
Affected Wards	All
Area Committees	All
Keywords/Index	Governance, Audit, Final accounts

Purpose of Report:

To present for approval by the Audit Committee the 2013/14 annual Statement of Final Accounts together with the external audit report on these accounts (the Annual Governance Report ISA260) prepared by KPMG which is proposing to issue an unqualified opinion for the Statement of Accounts 2013/14. The accounts provide details of the overall financial position in the Balance Sheet, details of the revenue activities for the General Fund, the Pension Fund, the Collection Fund, the Housing Revenue Account and the Annual Governance Statement (AGS). Formal approval of the Statement of Final Accounts is required in accordance with the Accounts and Audit Regulations 2011. KMPG are also reporting to this meeting on the outcome of their audit of these accounts.

1. Recommendations:

It is recommended that Audit Committee considers matters raised in the attached report by KPMG report that provides an unqualified opinion for the Statement of Accounts (including Pension Fund Accounts) for 2013/14 and:

1. Approves the Annual Governance Statement for 2013/14 (contained within the main Statement of Accounts pack at the rear of Appendix 2).
2. Considers the Report to those charged with governance (International Standard of Auditing 260 (ISA 260)) 2013/14 for the London Borough of Ealing issued by the Council's external auditors, KPMG and any findings and management responses by Officers (Appendix 1).
3. Approves the audited Statement of Accounts for 2013/14 for the London Borough of Ealing and London Borough of Ealing Pension Fund (Appendix 2) and authorises the signing thereof by the Chair of the Audit Committee at it's meeting on 23rd September.
4. Approves the letters of representation and for them to be signed by the Chair of the Committee and the Executive Director of Corporate Resources.

2. Reason for Decision and Options Considered

- 2.1. The arrangements for keeping and publishing the Council's accounts are set out in the Accounts and Audit Regulations 2011. Under these regulations the Executive Director of Corporate Resources is responsible for determining the Council's accounting system, form of accounts and supporting accounting records.
- 2.2. Under the Local Government and Housing Act 1989 the preparation of the accounts must follow proper practices, which includes preparing accounts in accordance with the Code of Practice on Local Authority Accounting in Great Britain.
- 2.3. The audit of the accounts for the London Borough of Ealing (LBE) is carried out separately to the audit of the accounts for the London Borough of Ealing Pension Fund (LBEPF). The results of the audit however are covered by a single Annual Governance Report for both shown as Appendix 2.
- 2.4. This is the second year that KPMG have acted as the Council's appointed external Auditors, having replaced the Audit Commission, the Council's previous auditors.

2.5. The attached reports summarise the findings from the audit of the 2013/14 Statement of Accounts and identifies any issues to be addressed in respect of the audit conclusion. The Audit Committee is required to approve the final Statement of Accounts and attached reports to conclude the audit process.

3. Accounts and Audit Regulations 2011

3.1. In accordance with the requirements of the regulations the Executive Director of Corporate Resources approved the Statement of Accounts on 13 June 2014. The accounts were prepared two weeks ahead of schedule for 2013/14 and were presented to the Audit Committee for an early view for information purposes on 24 June 2014.

3.2. KPMG, the Council's external auditors, have now audited the Statement of Accounts and their report to those charged with governance (ISA 260) will be presented to this Committee by the KPMG Director and Senior Manager.

3.3. The regulations require that :

- The Audit Committee considers and approves the audited statement of accounts by 30 September 2014 and the accounts are signed by the committee chair.
- The Council publishes the accounts by 30th September 2014.
- Audited bodies conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control (SIC) each year with the authority's financial statements. CIPFA confirmed that proper practice status was assigned to the AGS from 1 April 2007.

4. The Statement of Accounts

4.1. The Council has continued to improve the quality and timeliness of its accounts and closing processes and production of the accounts this year was two weeks ahead of schedule for 2013/14. The Statement of Accounts, as defined in the regulations and specified in the relevant sections of CIPFA's Accounting Code of Practice comprises:

- An explanatory foreword
- Statement of Responsibilities for the Statement of Accounts
- The accounting statements
- A statement of accounting policies
- Notes to the accounts.

4.1.1. Members of the Audit Committee received the draft Statement of Accounts in advance of the Audit Committee meeting on 24 June 2014. The Council's final Statement of accounts is now attached for Member consideration and approval in Appendix 2.

4.1.2. The accounting arrangements of a large organisation such as Ealing Council are detailed and complex. Inevitably, as the Statement of Accounts is the statutory form of the accounts set out in a prescribed format, it contains technical language, so a glossary is included (at the very back of the Statement of Accounts) to help explain some of the terms.

4.2. Report to those charged with governance (ISA 260) 2013/14

4.2.1. KPMG, as our external auditors, are required to issue the ISA260 report to those charged with governance 2013/14 on the Councils financial statements to the Audit Committee.

4.2.2. The versions here is reported for due consideration at this meeting with “those members charged with governance at the Council.” i.e. the Audit Committee.

4.2.3. KPMG propose to issue an :-

Unqualified audit opinion for the Council’s Financial Statements 2013/14 with no material adjustments

Unqualified audit opinion for the Council’s Pension Fund Financial Statements 2013/14 with no material adjustments

Unqualified Value for Money conclusion for Ealing Council 2013/14

4.2.4. A summary of the key headlines is set out on page 3 of the ISA260 and in the various Appendices of the ISA260 report.

4.2.5. The External Auditors have identified one non material adjustment which is due to an amount for a grant for small business rate relief that was included in the Collection Fund but should have been included in the General Fund. The adjustment of £621k is net neutral for the Council and is a considered a non-adjusting mis-statement and therefore the Council has not adjusted its Statement of Accounts for 2013/14.

4.2.6. Issues arising from regular audit work have been noted, discussed and resolved as stated in the reports to those charged with governance. The Auditor has made two non-vital (priority 3) recommendations arising from the Council’s 2013/14 accounts and these are detailed in Appendix 1 with management responses from the appropriate Council Officers.

5. Changes in Accounting and Reporting Requirements

5.1. The layout of the Statement of Accounts is determined by the CIPFA Code of Practice on Local Authority Accounting (‘the Code’), which is now based on International Financial Reporting Standards (IFRS).

5.2. This year there have only been a few changes to the format and presentation of the accounts. There has however, been one major change in terms of the accounting arrangements for the Collection Fund resulting from the localisation of Business Rates from 1 April 2014.

5.2.1. In addition there have been a few minor changes to the presentation of the accounts in accordance with the various accounting codes of practice that the Council has to follow as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

6. Annual Governance Statement

6.1. Members should note that the Chief Executive and Leader have signed the full 2013/14 Annual Governance Statement (AGS) document, which will be published with the Statement of Accounts.

6.2. A key role of the Committee is to oversee the Authority's control environment and its associated system of internal controls and assurance processes. The Committee must satisfy itself that the Authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions needed to improve it.

6.3. The AGS therefore sets out governance issues deemed significant and actions being taken to address the issues. The Council is required to exercise judgment in deciding whether or not a particular issue should be deemed significant. Factors which are used in exercising that judgment include:

- the issue seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- the external auditor regards it as having a material impact on the accounts;
- the audit committee, or equivalent, advises it should be considered significant for this purpose;
- the Head of Internal Audit reports on it as significant, for this purpose, in the annual opinion on the internal control environment; or
- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.

6.4. The information provided in the Statement regarding significant governance issues may include a description of the weakness and its impact on the authority in order to improve disclosure and provide context for the actions taken. The Council is required to balance the utility to the reader of the statement against the need for discretion in such disclosure to avoid further adverse impacts or exploitation of the weakness.

7. Closing Board

7.1. The timetable for production of the Council's draft accounts was achieved once again this year. The production of accounts under IFRS (introduced in 2010/11) remains a complex task and the Assistant Director of Corporate Finance chairs the Closing Board to provide a professional overview to the closing process for the annual accounts to ensure that:

- Best practice is undertaken in all areas of closing
- Auditor requests are responded to in a timely manner
- 'Trivial' errors are kept to an absolute minimum
- Communication between the various finance teams is maximised
- The closing timetable is regularly reviewed and strictly adhered to.

8. Financial implications

8.1. The report to those charged with governance (ISA 260) deals with the findings of the External audit of the Accounts of the Council and the issues to be addressed. The Council's financial position remains strong relative to many local authorities. However, the Council faces increasing financial pressures for the foreseeable future. Further interpretation of the accounts highlighting key issues that Ealing is facing are contained within the Executive Director's explanatory foreword to the Statement of Accounts.

8.2. The Balance sheet of the Council sets out the assets and liabilities at the end of the financial year. It is a guide to the financial health of the Council. The total assets less liabilities at 31 March 2013 are valued at £751m compared to £441m the previous year.

8.3. The Council's General Fund balance stands at £15.4m as at 31 March 2014 and the Council's earmarked reserves total £102.5m at 31 March 2014. The Council's Housing Revenue Account (HRA) achieved a surplus of £1.4m in 2013/14 and HRA earmarked balances stand at £20.1m.

8.4. The Pension Fund liability decreased by £63m in 2013/14 from £379m (2012/13) to £316m (2013/14). Stronger asset returns placed the Council in the top 9% of Local Authority performers in 2013/14 due to the rise in equity and bond holdings which rose respectively. The discount rate which is used to calculate the fund liability was reduced, mainly driven by falling gilt yields, increasing the liability.

8.5. The Scheme actuary re-values the Pension and every three years and the latest valuation at 31 March 2013 resulted in an increased funding position of

72% compared to 70% at 31 March 2010. It should be noted that the net liability does not represent an immediate call on Council reserves or balances and the latest valuation as at 31 March 2013 has been reflected in the general fund budget from 2014/15 and the employers contributions based on recommendations from the actuary are in line with the level that had been anticipated and budgeted for in the Councils Medium Term Financial Strategy.

9. Legal

9.1. Under section 2 of the Audit Commission Act 1998 the Statement of Accounts is to be audited in accordance with the act by an auditor or auditors appointed by the Commission. The Audit Commission has appointed KPMG to carry out this function for the financial year 2013/143.

9.2. The Accounts and Audit (England) Regulations 2011 refers to CIPFA guidance in relation to the “proper practice” of internal audit. CIPFA guidance is therefore used in guiding the compilation of the Annual Governance Statement. CIPFA’s original proper practice required the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) to sign the statement. This is also required by the CIPFA/SOLACE framework for the AGS.

9.3. Under section 151 of the Local Government Act 1972 every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. In Ealing this function is carried out by the Executive Director of Corporate Resources.

10. Value For Money

10.1. The external auditors have concluded (see page 11 of the Report to those charged with governance (ISA 260) that the Council has met all the Value for Money criteria.

11. Risk Management

11.1. The audit of the Council’s annual statement of accounts is carried out to minimise risks and ensure that statutory obligations are met. The audit also provides assurance that the accounts have been properly produced and are free from material error.

11.2. The preparation of the Annual Governance Statement has been explicitly linked to the risk management framework within the authority. One of the key principles of good governance is “taking informed, transparent decisions and

managing risk". Strong governance should minimise officer distraction from key corporate objectives as a result of governance failure(s).

12. Community Safety

12.1. There are no direct links to community safety implications as part of this report

13. Links to Strategic Objectives

13.1 The Council's accounts form a key part of working towards the Council priority of "delivering value for money". The production and publication of The Statement of Final Accounts provides valuable information to the residents of the Council and to its suppliers. The audited accounts will be available on the internet by the end of September.

14. Equalities and Community Cohesion

14.1. There is no need for an Equality Impact Assessment as part of this report.

15. Staffing/Workforce and Accommodation implications:

15.1. There are no direct staffing / workforce and accommodation implications as part of this report.

16. Property and Assets

16.1. There are no direct property and assets implications as part of this report other than to note that under current accounting rules councils assets are subject to revaluation at least once every 5 years, so the councils values its assets on a rolling programme with approximately 20% of the assets being valued each year. In addition the full portfolio of HRA assets are uplifted annually to reflect changes in market values. All assets valued above £10,000 (the Council's de-minimus level) are listed in the Council's Accounts.

17. Any other implications:

17.1. None

18. Consultation

18.1. An advertisement was placed in the Ealing Gazette on 21 June 2014 stating that the accounts were open for public inspection during a four week period from 15 July to 9 August 2014 respectively.

- 18.2. The Council is committed to publishing its accounts in a way that is accessible to the public. The unaudited accounts are available to the public on the council's website. The audited version of the accounts will be published on the council's website by the end of September 2014 in accordance with the statutory deadline.
- 18.3. The Council will publish the annual user friendly summary of the Accounts in the October edition of "Around Ealing" again this year in order to provide further public access to and awareness of the Council's finances.
- 18.4. The preparation of the Annual Governance Statement is an important task and as such preparation and challenge has been provided through a multi-disciplinary team. The AGS Working Group is chaired by the Director of Finance and attended by the Director of Legal and Democratic Services, Assistant Director of Core HR & OD, Director of Policy and Performance and Head of Audit & Investigation. In preparing the AGS self-assessment, input has also been provided by the Director of Marketing & Communications.
- 18.5. The AGS was prepared in draft using a variety of sources and presented to the AGSWG in March 2014, along with supporting documentation. Feedback obtained at the meeting was used to revise the Statement. The draft AGS was also presented to the Audit Committee in June 2014.

19. Timetable for Implementation

Key Activities	2014
Publication of summary accounts in Around Ealing	Autumn edition
Audited Accounts approved by Audit Committee	23 Sept
Publication of accounts on the internet	Before 30 Sept

20. Appendices

- Appendix 1– London Borough of Ealing – Report to those charged with governance (ISA 260) 2013/14
- Appendix 2 – London Borough of Ealing – Statement of Accounts 2013/14 including the Annual Governance Statement

21. Background Information

- 21.1. The information used in preparing the Statement of Final Accounts is prepared by the central and service Finance sections during the closing of the accounts process and papers are available in these sections.

21.2. Reports to Audit Committee on 24 June 2014.

21.3. The CIPFA code of practice on local authority accounting in the United Kingdom 2013/14.

21.4. The Annual Governance Statement: meeting the requirements of the Accounts and Audit Regulations – *Rough Guide for Practitioners* - CIPFA Finance Advisory Network.

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Internal				
Maria Christofi	Director of Finance	08.09.14	11.09.14	Throughout
Nigel Watson	Assistant Director of Corporate Finance	08.09.14	11.09.14	Throughout
Steve Tinkler	Head of Audit and Investigations	08.09.14	11.09.14	Throughout
Helen Harris	Director of Legal & Democratic Services	08.09.14	9.09.14	Throughout

Report History

Decision type: For information and action		Urgency item? No	
Authorised by Cabinet member:	Date report drafted: 08.09.14	Report deadline: 15.09.14	Date report sent: 12.09.14
Report no.: Report author and contact for queries: Brian Thompson Head of Financial Control and Reporting (Interim) 020 8825 7988			