



Report for:
DECISION

Item Number:

Contains Confidential or Exempt Information	No
Title	Statement of Accounts 2016/17
Responsible Officer(s)	Ian O'Donnell Executive Director of Corporate Resources Ross Brown Director of Finance
Author(s)	Maria Campagna Head of Corporate Finance
Portfolio(s)	Councillor Johnson - Finance, Performance & Customer Services
For Consideration By	Audit Committee
Date to be considered	27 July 2017
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 2016/17 Statement of Accounts together with the external audit report on these accounts (ISA260) prepared by KPMG, which is proposing to issue an unqualified opinion for the Statement of Accounts 2016/17.

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 Accounts is required in accordance with the Accounts and Audit Regulations 2015.

1. Recommendations:

It is recommended that Audit Committee considers matters raised in the attached report by KPMG that provides an unqualified opinion for the Statement of Accounts (including Pension Fund Accounts) for 2016/17 and:

- 1.1 Considers the report to those charged with governance (ISA 260) for the London Borough of Ealing issued by the Council's external auditors, KPMG and any findings and management responses by Officers (Appendix 1).
- 1.2 Approves the audited Statement of Accounts for 2016/17 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 its meeting.
- 1.3 Approves the Annual Governance Statement for 2016/17 (contained within the main Statement of Accounts pack at the rear of Appendix 2).
- 1.4 Approves the letters of representation (Appendix 3) 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 2015. 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 attached report (Appendix 1) summarise the findings from the audit of the 2016/17 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 2015

- 3.1. In accordance with the requirements of the regulations the Executive Director of Corporate Resources approved the draft Statement of Accounts on 7 June 2017. This was three weeks ahead of the current statutory deadline, but 7 days later than 2015/16 and the 31 May statutory deadline which must be achieved next year with 2017/18's accounts. This year's second dry run of meeting the new statutory requirements has been important to identify improvement actions required to be implemented before March 2018 and put the council in a good position to meet the new requirements.
- 3.2. KPMG, the Council's external auditor, has now audited the Statement of Accounts and its 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 2017 and the accounts are signed by the committee chair. Ealing will have achieved this two months ahead of the current statutory deadline.
 - The Council publishes the accounts by 30 September 2017.
 - Audited bodies conduct a review at least once a year of the effectiveness of its system of internal control and publish an annual governance statement each year with the authority's financial statements.
- 3.4 The regulations have confirmed that from 2017/18 the draft Statement of Accounts must be produced by 31 May and audited, approved by committee and published by 31 July. The council remains well placed to achieve these deadlines.

4. The Statement of Accounts

- 4.1. The Statement of Accounts, as defined in the regulations and specified in the relevant sections of CIPFA's Accounting Code of Practice comprises:
- Narrative Statement
 - Statement of Responsibilities for the Statement of Accounts
 - Expenditure and Funding Analysis (introduced for 2016/17)
 - Core Financial statements
 - Notes to the Core Financial Statements
 - Supplementary Statements (Housing Revenue Account (HRA), Collection Fund)
 - Pension Fund Accounts
 - Annual Governance Statement
- 4.2. The Council's Statement of accounts is attached for consideration and approval in Appendix 2.
- 4.3. 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. Statement of Accounts training was presented to Audit Committee on 24 May 2017 in preparation for the Committee's consideration of the 2016/17 accounts.

5. Report to those charged with governance (ISA 260) 2015/16

- 5.1. KPMG, as our external auditors, are required to issue the ISA260 report to those charged with governance on the Council's financial statements to the Audit Committee. The draft ISA260 report is provided as Appendix 1. The audit is not yet complete and an oral update will be provided at the Audit Committee meeting.
- 5.2. KPMG propose to issue an :-
- Unqualified audit opinion for the Council's Financial Statements 2016/17
 - Unqualified audit opinion for the Council's Pension Fund Financial Statements 2016/17

- Unqualified Value for Money conclusion for Ealing Council 2016/17.
- 5.3. A summary of the key headlines is set out in section one of the ISA260 and in the various appendices of the ISA260 report.
- 5.4. At the time of the issue of this report:
- one significant adjustment had been identified, corrected and reported. This was a £44.022m overstatement of the value of the HRA dwellings in the balance sheet (HRA dwellings value has been corrected to £800.375m at 31 March 2017). This correction has no impact on tenants as the impact of revaluations is reversed through the movements in reserves statement to be held in unusable reserves (Capital Adjustment Account);
 - one non-material adjustment to the Pension Fund Accounts had been identified, corrected and reported. This was a £1.723m overstatement of the value of the year-end investment income to be accrued. and
 - one uncorrected non-material audit difference had been identified, agreed and reported. This was the under-accrual of £1.887m of investment income relating to the Western Riverside Waste Authority loan. This will be corrected in 2017/18.

These are shown in Appendix 3 of the ISA 260 report.

- 5.5. 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 four recommendations arising from the Council's 2016/17 accounts and Value for Money review work, and followed up the two prior year recommendations. These are detailed in the appendices of the ISA260 report. Management responses from appropriate Council Officers are provided where relevant.

6. Annual Governance Statement

- 6.1. Members should note that the Chief Executive and Leader will have signed the full 2016/17 Annual Governance Statement (AGS) document, which will be published with the Statement of Accounts. There were minor changes (to reflect changes to regulation dates) from the draft document that was presented to Audit Committee on 24 May 2017.
- 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. Financial implications

7.1. 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, however it 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 Narrative Statement which provides an Executive Summary to the Statement of Accounts.

7.2. 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 2017 are valued at £763m compared to £913m the previous year.

7.3. The Council's General Fund balance stands at £15.5m as at 31 March 2017 (compared to £15.5m at 31 March 2016) and the Council's earmarked reserves total £100.0m at 31 March 2017 (compared to £110.1m at 31 March 2016). The Council's Housing Revenue Account (HRA) balance is £4.9m as at 31 March 2017 (compared to £4.9m at 31 March 2016) and HRA earmarked reserves stand at £11.8m (compared to £11.3m at 31 March 2016).

7.4. The Pension Fund's net assets increased from £953.6m to £1146.5m, while promised retirement benefits increased from an estimated £1,398m to £1,788m.

8. Legal

8.1. The Statement of Accounts are to be audited in accordance with the Accounts and Audit Regulations 2015 and the Local Audit and Accountability Act 2014. KPMG are the auditors appointed to carry out this function for the financial year 2016/17 and 2017/18 in accordance with the Act and Regulations.

8.2. The Accounts and Audit (England) Regulations 2015 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.

8.3. 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.

9. Value For Money

9.1. The external auditors have concluded in the report to those charged with governance (ISA 260) that the Council has met the Value for Money criteria, but identified financial resilience as an area for audit focus where they would keep a watching brief.

10. Risk Management

10.1. 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.

10.2. 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).

11. Community Safety

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

12. 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.

13. Equalities and Community Cohesion

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

14. Staffing/Workforce and Accommodation implications:

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

15. Property and Assets

15.1. 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 Council 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.

16. Any other implications:

16.1. None

17. Consultation

17.1. An advertisement was placed on the council's website on 7 June 2017 stating that the accounts were open for public inspection during a 30 working day period from 9 June to 20 July 2017.

17.2. 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 in advance of the end of September 2017 in accordance with the statutory deadline.

17.3. 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. The draft AGS was also presented to the Audit Committee in May 2017.

18. Timetable for Implementation

Key Activities	2017
Audited Accounts approved by Audit Committee	27 July
Publication of accounts on the internet	Before 30 Sept

19. Appendices

- Appendix 1– London Borough of Ealing – Report to those charged with governance (ISA 260) 2016/17
- Appendix 2 – London Borough of Ealing – Statement of Accounts 2016/17 including the Annual Governance Statement
- Appendix 3 – Draft letter of representation

20. Background Information

- The information used in preparing the Statement of Accounts is prepared by the Finance service during the closing of the accounts process and papers are available in these sections.
- The CIPFA code of practice on local authority accounting in the United Kingdom 2016/17.
- 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				
Ian O'Donnell	Executive Director of Finance & Resources			-
Ross Brown	Director of Finance	18/7/17		
Helen Harris	Director of Legal & Democratic Services	18/7/17		-

Report History

Decision type:		Urgency item?	
For information and action			
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no.:	Report author and contact for queries:		
	Maria Campagna Head of Corporate Finance 020 8825 9727		