



**Report for:**  
**DECISION**

**Item Number: 7**

<b>Contains Confidential or Exempt Information</b>	<b>No</b>
<b>Title</b>	Audit Committee consideration of the Council's Annual Statement of Accounts.
<b>Responsible Officer(s)</b>	Ian O'Donnell Executive Director of Corporate Resources Tel 020 8825 5269
<b>Author(s)</b>	Bob Scoffham, Head of Financial Control and Reporting Tel 020 8825 7988
<b>Portfolio(s)</b>	Finance and Performance – Councillor Yvonne Johnson
<b>For Consideration By</b>	Audit Committee
<b>Date to be considered</b>	19 September 2013
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All
<b>Area Committees</b>	All
<b>Keywords/Index</b>	Governance, Audit, Final accounts

**Purpose of Report:**

To present for approval by the committee the 2012/13 annual Statement of Final Accounts together with the external audit report on these accounts (the Annual Governance Reports) prepared by KPMG which is proposing to issue an unqualified opinion on these accounts. 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. KPMG are also reporting to this meeting on the outcome of their audit of these accounts.

**1. Recommendations:**

It is recommended that Audit Committee considers the matters raised in the attached reports by KPMG and:

1. Approves the audited Statement of Accounts for 2012/13 for the London Borough of Ealing and London Borough of Ealing Pension Fund (Appendix 1) and authorises the signing thereof by the Chair of the meeting on 19th September.
2. Authorises the Executive Director of Corporate Resources following consultation with the Audit Committee Chair to make any final amendments to the Accounts arising from the external audit prior to the signing of the accounts by the external auditor by 30 September 2013.
3. Approves the Annual Governance Statement for 2012/13 (Appendix 1).
4. Considers the Reports to those charged with governance (International Standard of Auditing 260 (ISA 260)) 2012/13 for the London Borough of Ealing and the London Borough of Ealing Pension Fund issued by the Council's external auditors, KPMG and any findings and adjustments (Appendices 2 & 3).
5. Approves the letters of representation and for them to be signed by the Chair of the Committee and the Executive Director of Corporate Resources.
6. Agrees the responses to the proposed action plan.

## **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). As a result the auditors produce two separate Annual Governance Reports shown as Appendix 2 (LBE) and Appendix 3 (LBEPF).
- 2.4. This is the first 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 audits of the 2012/13 Statement of Accounts and identifies any issues to be addressed in each case.

### **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 28 June. A copy of these accounts was sent to the Chair of this committee on 3 July. A copy was placed on the Council internet on 9 July and the accounts were also reported to cabinet on 23 July.

3.2. KPMG, the Council's external auditors, have now audited the Statement of Accounts and their Reports to those charged with governance (ISA 260) will be presented to this committee.

3.3. The regulations require:

3.3.1. The Audit committee to consider and approve the audited statement of accounts by 30 September and for these accounts to be signed and dated by the committee chair.

3.3.2. The Council to publish the accounts by 30th September 2013.

3.3.3. Audited bodies to 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 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.

**4.2. *The Council's Statement of accounts are attached for Member consideration and approval in Appendix 1.***

4.2.1. 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 back of Appendix 1) to help explain some of the terms.

### 4.3. Report to those charged with governance (ISA 260) 2012/13

- 4.3.1. KPMG, as our external auditors, are required to issue the reports to those charged with governance (ISA 260) 2012/13 on the Councils financial statements to the Audit Committee.
- 4.3.2. The versions here are reported for due consideration at this meeting with “those members charged with governance at the Council.” i.e. the Audit Committee.
- 4.3.3. KPMG propose to issue an **unqualified audit opinion** and the audit itself has not revealed any material items that need to be reported to this Committee. A summary of the key messages is set out on page 3 of appendices 2 and 3.
- 4.3.4. The External Auditors have identified one adjustment which has been corrected regarding the short and long term split of the PFI liability which is a presentational change that does not change the financial outturn reported to Cabinet on 23 July.
- 4.3.5. Issues arising from normal audit work have been noted, discussed, and resolved as stated in the reports to those charged with governance. The Auditor has made no recommendations arising from the Council’s 2012/13 accounts.

## 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 have been two major changes to the way in which the accounts are presented.
- 5.3. The first change is to the Housing Revenue Accounts (HRA) following the introduction of the self-financing regime for housing authorities in England from 1 April 2012. The HRA no longer receives subsidy from the government following the reduction in the value of outstanding loans due to the Public Works Loan Board on 31 March 2012. The loss in subsidy is therefore broadly offset by the reduction in interest payments.
- 5.4. Under the self financing arrangements the full cost of losses in revaluations of non-dwelling property is now charged to the HRA. This resulted in an additional cost of £209k in 2012/13. Under these regulations the full cost of losses in revaluations to HRA dwellings will be charged to the HRA from 1 April 2017 and this will have a significant impact on the HRA after that date.
- 5.5. The second change is an expansion of the foreword to the accounts. This now includes a note on the impact of the current economic climate on the

Council, a summary of the earmarked reserves and information on changes in 2013/14 and beyond.

5.6. In addition there have been a few minor changes to the presentation of the accounts.

## **6. Annual Governance Statement**

6.1. Members should note that the Chief Executive and Leader have signed the full 2012/13 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 in section 5, 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**

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 £441m compared to £470m the previous year. The largest contributors to the £29m decrease in the Council's net worth was the increase of £73m in the pension liability offset by an increase of £60m in property, plant and equipment.

8.3. The Pension Fund liability increased by £72m in 2012/13 from £379m to £451m. Strong asset returns placed the Council in the top 8% of Local Authority performers in 2012/13 due to the rise in equity and bond holdings which rose by 17% and 16% respectively. However the discount rate which is used to calculate the fund liability was reduced, mainly driven by falling gilt yields, increasing the liability. The Scheme's actuary revalues the Fund every three years (the next valuation is at 31.3.2013) with contribution rates set to ensure that we extinguish the liability, to maintain a balanced fund over the long term.

## **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 2012/13.

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 10 of the Report to those charged with governance (ISA 260) (Appendix 2 to this report)) 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 councils deminimus level) are listed in the Council's Accounts. Under the self-financing arrangements the full cost of losses in revaluations for non-dwelling property beyond any revaluation reserve is now charged to the HRA which has resulted in an additional cost of £209k in 2012/13. There was a prior year adjustment for the value of HRA garages due to a change in methodology to reflect a more accurate value of the councils garages within the accounts, based on condition and use.

## **17. Any other implications:**

17.1. None

## **18. Consultation**

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

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 2013 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. Our key partners such as the PCT and the Local Strategic Partnership will also be sent copies of the audited accounts and a summary of the Council's financial performance.

18.5. 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 Corporate Finance and Audit 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.

18.6. The AGS was prepared in draft using a variety of sources and presented to the AGSWG in March 2013, 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 March 2013.

## 19. Timetable for Implementation

Key Activities	2013
Audited Accounts approved by Audit Committee	19 Sept
Publication of accounts on the internet	Before 30 Sept
Publication of summary accounts in Around Ealing	October edition

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20.1. Appendix 1– Statement of Accounts and the Annual Governance Statement

20.2. Appendix 2 – London Borough of Ealing – Report to those charged with governance (ISA 260) 2012/13

20.3. Appendix 3 – Ealing Pension Fund - Report to those charged with governance (ISA 260) 2012/13

## 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 20 March 2013 and 27 June 2013.

21.3. The CIPFA code of practice on local authority accounting in the United Kingdom 2012/13.

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

## **Consultation**

<b>Name of consultee</b>	<b>Department</b>	<b>Date sent to consultee</b>	<b>Date response received from consultee</b>	<b>Comments appear in report para:</b>
Internal				
Maria Christofi	Director of Finance	04.09.13	06.09.13	Throughout
Nigel Watson	Assistant Director of Corporate Finance	27.08.13	29.08.13	Throughout
John Allsop	Acting Head of Audit and Investigations	20.08.13	21.08.13	Throughout
Helen Harris	Director of Legal & Democratic Services	20.08.13	20.08.13	

## **Report History**

<b>Decision type:</b> <b>For information and action</b>		Urgency item? No	
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
	20.08.13	10.09.13	09.09.13
Report no.:	Report author and contact for queries:  Bob Scoffham Head of Financial Control and Reporting 020 8825 7988		

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