


Non-Executive Report of the: Audit Committee 24th September 2015	 TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	Classification: Unrestricted
Annual Financial Report 2013/14	

Originating Officer(s)	Kevin Miles – Chief Accountant
Wards affected	N/A

Summary

- This report presents the Authority's Annual Financial Report containing the Statement of Accounts for the financial year ending 31st March 2014 following the completion of the audit by KPMG.
- This report was delayed as a result of concerns raised by PwC on the Best Value conclusion and this required KPMG to undertake additional work to provide assurance in these areas.
- The final version of the accounts is attached. Although there are some minor changes to the accounts, the Council's overall financial position is unchanged from the draft circulated to Members in June 2014, except for a £1.3m reduction in earmarked public health reserves following the notification of a third party liability after the draft accounts were prepared. This was reported when the draft ISA260 was reported in September and since then there have been no changes to the councils resources.
- The auditors will also be presenting their final annual audit report at this meeting which will contain their opinion on the Accounts subject to any further review work they feel is necessary. Members of the Committee will be asked to approve the Statement of Accounts at this meeting.

Recommendations:

The Audit Committee is recommended to:

- Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2014, having regard for the auditor's Annual Governance Report

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit (England) Regulations 2011 require that the council produces and publishes a signed Statement of Accounts within statutory deadlines. These statements must then be audited and an opinion issued section 9 of the Audit Commission Act 1998.

2. ALTERNATIVE OPTIONS

- 2.1 The Council produces its Statement of Accounts in line with the appropriate guidance and legislation.
- 2.2 This report is produced to ensure that the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered necessary beyond that included below.

3. BACKGROUND

- 3.1 In June 2014, officers presented the draft Statement of Accounts for 2013/14 to Audit Committee (including the pension fund accounts) which was subject to audit. This was the fourth set of accounts to be compliant with the requirements of International Financial Reporting Standards (IFRS). This report now presents the final set of accounts following the completion of the KPMG audit review.
- 3.2 To follow the Chartered Institute of Public Finance and Accountancy (CIPFA) best practice, Audit Committee is requested to approve the Statement of Accounts which will then be formally published. The audited accounts should have been published in September 2014; however due to concerns raised by PwC on the Best Value conclusion, our external auditors, KPMG, were required to undertake a significant amount of additional work to obtain the assurance needed to sign off the financial statements.
- 3.3 KPMG will be presenting their Annual Governance Report, the ISA260 on this agenda, detailing changes made to the draft accounts and any matters of a non-trifling nature that need to be brought to the attention of the Committee. A draft version of the accounts was tabled in September 2014 and there are no significant changes to be reported.

4. STATEMENT OF ACCOUNTS 2013/14

- 4.1 The restated Statement of Accounts for 2013/14 is attached to the report as Appendix 1. This includes the Council's Income and Expenditure Account for the year, the Balance Sheet as at 31st March 2014, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the Council's Pension Fund Accounts.

- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the “Code of Practice on Local Authority Accounting” published by CIPFA.
- 4.3 The accounts are an important aspect of the financial management of the Council as they set out the Council’s financial position as at 31st March each year. They include details of the main assets and liabilities, and the year-on-year movements both in the income and expenditure accounts and balance sheet. The accounts are also an integral part of the Medium Term Financial Planning process.
- 4.4 The usable reserves of the Accounts are unchanged from the draft previously circulated except for an accrual of £1.3m for third party Public Health services which hadn’t been notified by the time the draft accounts were prepared and published in June.
- 4.4.1 **Audit Opinion** – the external auditor has given an unqualified opinion on the accounts and that they give a true and fair view for the year ended 31st March 2014. There were no material changes to the draft accounts that materially affected the Council’s usable reserves.
- 4.4.2 **Addressing of audit risks** – officers liaised closely with auditors to ensure risk areas arising from Agresso, the new financial management system, were addressed. These risk areas covered the frequency of bank and payroll reconciliations. Officers are ensuring regular reconciliations are conducted throughout the year.
- 4.4.3 There are some audit recommendations that KPMG brought to the attention of Members at the September 2014 meeting.
- 4.4.4 The recommendations relating to the 2013/14 accounts concern:

School bank reconciliations - the auditors have also highlighted some old timing differences with school bank reconciliations.

Property values - though property valuations for non-housing stock buildings are conducted on a five year rolling programme in preparing the Accounts (in accordance with CIPFA guidelines), there is a risk that property values may be under stated. Officers are working with Valuers to minimise the risk of material misstatement of property without increasing valuation fees.

Budget monitor variance explanations – some budget monitoring reports during the year did not contain sufficient information on spend variances. Officers are working with budget managers to ensure the information contained in reports is sufficient to explain the reasons for the variances and what action is being taken.

Corporate governance review – as part of preparing for the reduction in financial resources, a corporate review is being undertaken to ensure the council has suitable structures in place to provide services. The auditors have

highlighted that this process is on-going, and it is acknowledged that the changes the Council will make will take time to plan, review and implement.

- 4.5 As part of the Accounts inspection process, members of the community are able to raise objections to the Statement of Accounts with the external auditors. An objection to the accounts was received concerning parking enforcement income on housing estates. Officers are liaising with Legal Services on this matter.
- 4.6 Members are now requested to approve the Statement of Accounts for 2013/14. The auditors are required to complete and sign off the Whole of Government Accounts return as part of providing their opinion on the accounting statements.
- 4.7 **2014/15 Statement of Accounts** - The final version of the 2014/15 financial accounts has been delayed whilst the 2013/14 items are finalised and is still undergoing audit review. It is envisaged that the 2014/15 Statement of Accounts will be presented to this committee on 8th December 2015.
- 4.8 **Value For Money Assessment** – Following last year's Best Value report from PwC, the auditors are considering issuing an adverse opinion in respect of the Council securing value for money. KPMG are considering the areas of concern before reaching a conclusion. Details are contained within their ISA260 report. These value for money concerns do not affect how the accounting statements have been presented.
- 4.9 **Best Value and Control Recommendations** – The findings of the report have raised some Value for Money concerns that will be responded to and addressed, as set out below:
 - 4.9.1 **Declarations of Interest:** need to review and if necessary improve approach to identifying potential interests and ensure that members and senior officers declarations are up to date and complete.
 - 4.9.2 **Governance Arrangements in Schools:** seek to review and improve the control and governance arrangements in schools that currently fall below the minimum standard.
 - 4.9.3 **S106 Arrangements** – review arrangements for the receipt and payment of S106 monies, ensuring that control and reporting mechanisms are appropriate and robust.
 - 4.9.4 **Mayoral Expenses** – ensure that where appropriate documentation is held in a sufficient level of detail.

Officers are addressing these issues and KPMG will be following these items up as part of future audits.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

5.1 The comments of the chief financial officer are incorporated within this report.

6. LEGAL COMMENTS

- 6.1. The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011 ('the 2011 Regulations'). The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes: demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 6.2. The 2011 Regulations specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.
- 6.3. Section 11 of the Audit Commission Act requires the Council to consider the auditor's report or recommendations at a meeting within one month of receipt of the auditor's report, and decide whether to accept the recommendations and what, if any action to take. The auditor is able to extend this timescale if they are satisfied that this is reasonable. Notice of the meeting must be published in a local newspaper at least 7 days before the meeting, and the auditors notified of the outcome of the meeting.
- 6.4. The Local Audit and Accountability Act 2014 ('the Act') abolishes the Audit Commission and repeals the Audit Commission Act 1998. The Act and supporting regulations (which replace the 2011 Regulations) came into effect on 1 April 2015 and will apply from the 2015/16 financial year onwards and are therefore not relevant to the matters referred to in this report. The aim of the Act, as stated in DCLG guidance, is to give local bodies the freedom to appoint their own auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence. However, the new local arrangements for the appointment of auditors are expected to start after the Commission's current contracts with audit suppliers end in 2016-17, although this could be later if the contracts are extended to 2019-20.

7.1 ONE TOWER HAMLETS CONSIDERATIONS

7.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.

7.2 The statements are published on the Council's website both in draft and in audited form. Interested parties had the right to inspect the accounts during July 2014 and local electors had the right to submit questions or objections to the accounts to the auditor. Details of these rights are published in local newspapers at appropriate stages.

8. BEST VALUE (BV) IMPLICATIONS

8.1 KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There are no SAGE implications arising out of this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 There are no specific risk management implications

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no crime and disorder reduction implications.

Linked Reports, Appendices and Background Documents

Linked Report

- Draft Annual Financial Report 2013/14 – Audit Committee 30/06/2014
- Interim Report to those Charged with Governance (ISA260) 2013/14 – Audit Committee - 16/09/2014
- Annual Governance Statement 2013/14 – Audit Committee 24/09/2015

Appendices

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31st March 2014 (subject to final audit opinion)

**Local Government Act, 2000 (SECTION 97)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS
REPORT**

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection
Closure of Accounts Working Papers	Kevin Miles, Ext. 6791
Capital Working Papers	Alison Gebbett, Ext. 3360
HRA Closure of Accounts Working Papers	Paul Leeson, Ext. 4995