


Non-Executive Report of the:  <b>Audit Committee</b>  22 March 2016	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke – Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>Annual Financial Report 2014/15 (Incorporating KPMG’s Report to Those Charged With Governance 2014/15)</b>	

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

### Summary

- This report presents the Authority’s Annual Financial Report containing the Statement of Accounts for the financial year ending 31<sup>st</sup> March 2015 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 were some minor changes to the accounts, the Council’s overall financial position is unchanged from the draft circulated to Members in July 2015
- 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 31<sup>st</sup> March 2015, 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 July 2015, officers presented the draft Statement of Accounts for 2014/15 to Audit Committee (including the pension fund accounts) which was subject to audit. These accounts are 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 2015; 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 July 2015 and there are no significant changes to be reported.

## **4. STATEMENT OF ACCOUNTS 2014/15**

- 4.1 The audited Statement of Accounts for 2014/15 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 31<sup>st</sup> March 2015, 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 31<sup>st</sup> 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 and published on the Council website in June 2015 and tabled at the July Committee.
- 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 31<sup>st</sup> March 2015. There were no material changes to the draft accounts that affect the Council’s reported financial position or 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 **ISA 260 Recommendations** – There are no new recommendations to be reported for the 2014/15 financial statements, although there are still some actions outstanding from the 2013/14 recommendations.
- 4.4.4 Of the 8 recommendations identified in the 2013/14 audit report, 4 recommendations have been completed and 1 has been superseded. Progress on the remaining 3 has been made and KPMG acknowledge that there has been limited time to implement these and that the nature of the recommendations will mean that it will take time to demonstrate that the approach has been effective.
- 4.4.5 The completed recommendations relate to:
- Completion of key recommendations – key control reconciliations for areas such as bank reconciliations and payroll are fully in place post Agresso implementation and are signed off by senior officers.
  - School bank recommendations – the schools finance team have provided reminders on bank reconciliation guidance to schools and conduct testing on the quality of reconciliations
  - Other Land & Building valuations – for the 2014/15 accounts, officers ensured Valuers considered upwards as well as downwards valuations in reviewing properties that weren’t subject to a full valuation that year (but are part of a five year valuation rolling programme).
  - 111-113 Mellish Street / Assets Allocated for Community Benefit - An initial report on the allocation and charging policy for the use of buildings was

reviewed and a new policy was approved by the Mayor in late 2015. A review of council owned community buildings is being conducted by the Corporate Property Department. As the letting of properties to the voluntary / third sector is now part of the Commissioner's monitoring remit, it is now covered by the best value action plans for property and grants.

- Mayoral expenses – systems are in place to ensure that sufficient supporting documentation is retained for Mayoral expenses.

The completed recommendations are detailed in appendix B

4.4.6 The remaining recommendations concern the value for money assessment and relate to:

- Governance Arrangements in School – officers have issued revised guidance and have offered additional support by the Council
- Declarations of Interest – policies procedures have been reviewed, a register is being compiled of organisations receiving financial assistance and members and officers have been advised to make appropriate declarations.
- S106 Arrangements – Grant Thornton are conducting a review of policies and procedures. Final report to be reported at June committee.

The progress on these matters at March 2016 is outlined in pages 20 to 22 of the Auditors report. Officers are working with Grant Thornton in finalising the auditor's report on management processes. Officers plan to report back to Audit Committee in June on the final report with an outline of required action. These matters do not impact upon the auditor's opinion on the statement of accounts.

4.4.7 Officers will continue to feedback on progress to this committee, and KPMG will monitor the outputs to ensure that the recommendations are fully met.

4.5 Objections by the public - 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. Four objections to the accounts have been received; 2 concerning parking enforcement income on housing estates: 1 relating to the legality of the Best Value Inspection Payment to DCLG; and 1 relating to the legality of LOBO bank loans. These are being investigated by KPMG, who are liaising with officers as appropriate, but these are not expected to prevent the publication of the accounts opinion, although the audit certificate cannot be issued until these are concluded.

4.6 Members are now requested to approve the Statement of Accounts for 2014/15. 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 **Value For Money Assessment** – Following the Value for Money assessment the auditors still have concerns over the council's ability to secure economy, efficiency and effectiveness. This largely stems from the limited timescale the authority had to implement the relevant controls since the publication of the

PwC BV inspection report in November 2014. As a result they are likely to issue an adverse opinion on similar grounds to the one issued for 2013/14.

- 4.8 The auditors do acknowledge the work undertaken to address these concerns and have reviewed the 7 Best Value action plans, but feel until these plans have had longer to bed in and influence the organisational culture they cannot gain the required level of assurance. They will monitor progress on the plans as part of future audits.
- 4.9 Section 11 – in addition to the recommendations made in the BV inspection report, comments within the mayoral election judgment, and via other matters raised with them, the auditor indicated that they considered that the governance had not always been effective.
- 4.10 As a result KPMG invoked a section 11 recommendation that the authority should review its governance procedures. In line with statutory guidance the authority called public meetings (Full Council on 20 January and General Purposes Committee on 27 January), at which the recommendation was accepted and the plan of action was agreed. The auditors will review this item as part of future audits to ensure the requirements of the section 11 recommendation are being met.

## **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<sup>th</sup> 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<sup>th</sup> 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<sup>th</sup> 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 2015 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 and the Council website 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.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- Draft Annual Financial Report 2014/15 – Audit Committee 30/06/2014
- Interim Report to those Charged with Governance (ISA260) 2014/15 – Audit Committee - 16/09/2014
- Annual Governance Statement 2014/15 – Audit Committee 21/07/2015

#### **Appendices**

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31<sup>st</sup> March 2015 (subject to final audit opinion)  
Appendix 2 - Completed ISA260 recommendations from 2013/14

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### **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