SUPPLEMENTARY 1

THE PUBLIC ACCOUNTS AND AUDIT SELECT COMMITTEE

Tuesday, 12 September 2017

Agenda Item 9a Update on the approval of the Statement of Accounts and Annual Governance Statement 2016/17 (Pages 1 - 9)

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This report is submitted under Agenda Item 9. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any further delay in Statement of Accounts being published.

**Title:** Update on the approval of the Statement of Accounts and Annual Governance Statement 2016/17

**Report of the Chief Operating Officer**

<table>
<thead>
<tr>
<th>Open Report</th>
<th>For Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wards Affected: All</td>
<td>Key Decision: No</td>
</tr>
</tbody>
</table>

**Report Author:** Stephen Hinds, Chief Accountant  
**Accountable Director:** Kathy Freeman, Director of Finance  
**Contact Details:**  
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Tel: 020 8227 3079

**Summary:**
The Council’s draft accounts were approved by the Chief Operating Officer in June 2017 and have been subjected to detailed audit by our external auditors, KPMG. Whilst the audit has yet to be completed, as at the date of preparing this report, KPMG are proposing to issue an unqualified audit opinion for the Statement of Accounts, including the Pension Fund.

In accordance with the Accounts and Audit Regulations 2015, the accounts and the Annual Governance Statement are now being presented to this Committee for their consideration and approval prior to publication by 30 September 2017.

**Recommendation**

The Public Accounts and Audit Select Committee is recommended to:

i. Review and approve the Statement of Accounts for the year ended 31 March 2017;

ii. Approve the Annual Governance Statement for the year ended 31 March 2017;

iii. In order to comply with the Council’s statutory obligations, confirm that the Statement of Accounts for the year ended 31 March 2017 can be published by 30 September 2017 and authorise the Chief Operating Officer in liaison with the Lead Member to make any changes to the accounts that may be agreed with KPMG.
Reason(s)

It is a statutory obligation for the Council’s Statement of Accounts to be produced and audited in accordance with the timetable as set out in the Audit and Accounts Regulations 2015, and that the Statement of Accounts and the Annual Governance Statement must be approved by a Committee of the Council.

1. Introduction and Background

1.1 The publication of the Statement of Accounts is governed by the requirements of the Accounts and Audit Regulations 2015. These require the Statement of Accounts to be certified by the Council’s Section 151 officer (Chief Operating Officer) as presenting a true and fair view of the financial position of the Council by the 30th June of each year. The accounts must then be submitted for external audit to publish audited accounts by no later than the 30th September of the same year.

2. Audit of Accounts

2.1 Following on from the PAASC meeting in July, the auditors have issued an updated ISA 260 to this meeting. The previous report identified the following as ongoing areas of work:
   - Verifying the work of the valuers relating to our land and buildings valuations
   - Awaiting confirmation from our banking providers on year-end cash balances
   - Testing Schools payroll expenditure
   - Confirmation of recording the entries of the register of interests
   - Verifying the independence of the Barking Renew Charity and
   - Agreeing the presentation of the recharges within the financial statements – these are now netted off rather than grossed up.

The work in these areas is now complete and the auditors are satisfied with the conclusion of this work, aside from the issue relating to registered interests.

2.2 The report notes that the authority was unable to obtain all declarations of interest, and KPMG have undertaken alternative procedures to gain assurance regarding the two councillors for whom returns were not received. This has meant that the auditors have raised an additional recommendation relating to this. Management will ensure that this recommendation is acted upon, and the outcome of this work will be reported back to PAASC next year.

2.3 The adjusted audited differences are detailed below. These relate to the amendments to the authorities Land and Buildings valuations, and the correction to the recording of recharges, which nets to zero.
3. Pension Fund

3.1 There have been no further changes to the pension fund.

4. Value for Money Conclusion

4.1 It has been concluded that the Council has made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources. KPMG anticipate issuing an unqualified VFM conclusion by 30 September 2017.

5. Annual Governance

5.1 The Council’s duty in respect of the Annual Governance Statement (AGS) is to undertake an annual review of its governance arrangements, which includes the effectiveness of its system of internal control. This has been done and the statement, which has been signed by the Leader of the Council and Chief Executive, is included as a separate section within the statement of accounts. The auditors have reviewed the statement and confirmed that it complies with the guidance, Delivering Good Governance in Local Government: A Framework, issued by CIPFA/SOLACE.

6. Management Representation Letter

6.1 It is a requirement of external audit that the Section 151 Officer signs a letter of representation confirming that he has the responsibility for the proper administration of the financial affairs of the authority and that the duties that this entails have been undertaken. The letter is attached to this report.

7. Publication of the Statement of Accounts

7.1 If the recommendation to approve the Accounts is agreed by this committee, KPMG will be able to provide their formal opinion on the accounts and formally conclude the audit. The accounts will then be placed on the Council’s website.

8. Financial Implications

8.1 These have been addressed in the body of the report.
9. Legal Implications

9.1 The Local Audit and Accountability Act 2014 (the ‘2014 Act’) requires that the Council as a relevant body must have its accounts audited. The procedure is set out in the Accounts and Audit Regulations 2015 (the ‘Regulations’). Regulation 9 sets out a timetable and requires certification by the Council’s responsible finance officer of the statement and then consideration by a committee to consider the statement and approve by resolution. This report is prepared in compliance with that obligation.

9.2 Furthermore, specified relevant local authorities\(^1\) are required under Regulation 6(1) (b) to prepare an Annual Governance Statement (‘AGS’).

Governance is defined by CIPFA / SOLACE\(^2\) as:
The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

and

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entities objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

9.3 The Regulations require the AGS be approved by a resolution of a Committee of the Council.

9.4 Following approval the Council must publish no later than 31 September 2017 the statement of accounts, the AGS as approved and a narrative statement by the Council on its financial performance, and economy, efficiency and effectiveness in the use of its resources over the financial year.

10. Appendix

ISA 260
Management Representation Letter

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\(^1\) See Section 2 and Schedule 2 of the Accounts and Audit Regulations 2015
\(^2\) CIPFA SOLACE Delivering Good Governance in Local Government Framework 2016 Edition
External Audit: Update Report 2016/17

London Borough of Barking and Dagenham

12 September 2017
External audit update

Introduction

We presented our External Audit Report to Public Accounts and Audit Select Committee at its meeting on 25 July 2017. Our report highlighted areas of our audit which were ongoing. This report provides an update on those areas.

Update

In our previous report we identified the following areas as ongoing:

- Verifying the accuracy of the assumptions used by Wilks, Head & Eve in preparing the valuation of your land and buildings;
- Awaiting confirmation from your banking providers of your year-end cash balances;
- Testing the payroll expenditure of schools which have opted out of the Authority’s Oracle accounting software;
- Final confirmation of the receipt and recording of all entries in the register of interests;
- Verifying the independence of the Barking Renew charity; and
- Agreeing the presentation of recharges within the financial statements.

Our work in the above areas is now complete. Adjustments made to the Statement of Accounts as a result of these procedures have been set out on page 4 of this report.

The Authority was unable to obtain all declarations of interests. We have undertaken alternative procedures to gain assurance regarding the two Councillors for whom returns were not received. We have also raised an additional recommendation, set out on page 3 of this report.

In response to misstatements identified during our audit the Authority has obtained a revised valuation report from its valuer, Wilks, Head & Eve. The impact on the Statement of Accounts is set out on page 4 of this report.

We reported to you in July that one objection had been raised on the Authority’s Statement of Accounts. Our work in this area is still ongoing.

Conclusion

As communicated in our previous report, we anticipate issuing an unqualified opinion on the Authority’s financial statements by the statutory deadline of 30 September.
Since the report presented to PAASC in July 2017 we have raised one additional recommendation:

<table>
<thead>
<tr>
<th>Priority rating for recommendations</th>
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<tbody>
<tr>
<td>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</td>
</tr>
<tr>
<td>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</td>
</tr>
<tr>
<td>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Risk</th>
<th>Recommendation</th>
<th>Management Response / Officer / Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Completeness of related parties declarations</td>
<td>The Authority obtains annual related parties declarations from all Councillors and senior officers. This is an important process for ensuring potential conflicts of interest are managed effectively and are disclosed appropriately in the Statement of Accounts. Our audit identified two Councillors for whom related parties declarations were not obtained. There is a risk that actual or perceived conflicts of interest are not identified and managed appropriately. We recommend that the Authority initiates the related parties process earlier in the financial year to enable a complete set of returns.</td>
<td></td>
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</table>
Further to our July 2017 report, the table below sets out additional adjusted misstatements identified as part of our audit. There are no further unadjusted misstatements above our reporting threshold.

<table>
<thead>
<tr>
<th>Authority adjusted audit differences (£’000)</th>
<th>Income and expenditure statement</th>
<th>Movement in reserves statement</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Reserves</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dr Impairments</td>
<td>Cr Other land and buildings</td>
<td>£22.0m</td>
<td>Dr Revaluation reserve</td>
<td>£17.6m</td>
<td>The Eastbrook Comprehensive school buildings were valued at £22.0m at year-end despite being earmarked for imminent demolition. This is the adjustment to reduce the value of the assets. At the date of our July report the financial impact of this adjustment was not yet finalised.</td>
</tr>
<tr>
<td>2</td>
<td>Dr Other land and buildings</td>
<td>Cr Revaluation reserve</td>
<td>£42.8m</td>
<td>£42.8m</td>
<td></td>
<td>Our audit procedures identified deficiencies in the Authority’s land and buildings valuation. This adjustment reflects the impact of the revised report received by the Authority.</td>
</tr>
<tr>
<td>3</td>
<td>DR Income</td>
<td>£nil</td>
<td>Dr £20.8m</td>
<td>£nil</td>
<td>Cr £25.2m</td>
<td>Total impact of corrected audit differences</td>
</tr>
<tr>
<td></td>
<td>CR Expenditure</td>
<td>£131.9m</td>
<td>£131.9m</td>
<td>£4.4m</td>
<td>£20.8m</td>
<td></td>
</tr>
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The Authority’s draft Statement of Accounts accounted for internal recharges twice in error. This is the impact of correcting that error. This does not have a net impact on the income statement.