

**To the Chair and Members of the  
AUDIT COMMITTEE**

**STATEMENT OF ACCOUNTS 2012/13**

**EXECUTIVE SUMMARY**

1. The 'Annual Report To Those Charged With Governance (ISA 260)' (see Appendix A) summarises the findings from the 2012/13 audit and identifies key issues that the Committee should consider before KPMG issue its opinion.
2. KPMG expect to issue an unqualified opinion on the Council's financial statements which are now presented to the Committee for approval (see Appendix C).
3. The 'Annual Report To Those Charged With Governance (ISA 260)' recognises the improvements made by the Council in preparing the 2012/13 Statement of Accounts for audit. The quality of the working papers and supporting information has improved with the working papers meeting the standards specified in the Accounts Audit Protocol. However the number of amendments required to the financial statements presented for audit has not reduced from previous years. There remains scope for improvement in both of these areas with work needing to be done to further improve working papers and supporting information and the quality assurance process.
4. KPMG intends to issue a positive Value for Money (VfM) conclusion stating that the authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. This follows on from the positive conclusion obtained last year and is recognition of the work undertaken to embed improved governance arrangements. However, KPMG have included an additional paragraph in the conclusion to draw attention to the Secretary of State's statement about the Council's Children's Services.
5. The Letter of Representation (see Appendix B) requires endorsement by the Committee as an important final stage in the audit of the Council's 2012/13 Statement of Accounts. The letter is from the Director of Finance and Corporate Services to the external auditor as an assurance from management that the accounts have been prepared correctly and to bring to the auditors' attention any further matters that need to be taken into account prior to their opinion being issued.

**RECOMMENDATIONS**

6. It is recommended that the Audit Committee
  - Note the action that is proposed in relation to amendments to the accounts as covered in the 'Annual Report To Those Charged With Governance (ISA 260)';

- Note the contents of the external audit 'Annual Report To Those Charged With Governance (ISA 260)';
- Consider the Letter of Representation and endorse its contents; and
- Approve the Statement of Accounts 2012/13

## BACKGROUND

7. The Council's 2012/13 accounts have been prepared in accordance with IFRS accounting standards and the appropriate accounting codes of practice and were approved by the Council's responsible financial officer on the 30<sup>th</sup> June in order to comply with the Accounts & Audit (England) Regulations 2011.
8. The draft accounts were subsequently presented to the Committee on the 18<sup>th</sup> July 2013.
9. Since then the audit has been undertaken and included examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also included an assessment of the significant estimates and judgments made by the authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed. This has resulted in findings and conclusions contained in the 'Annual Report To Those Charged With Governance (ISA 260)'.
10. The amendments made during the audit process have resulted in a change in the level of usable reserves from that previously reported to Audit Committee on 18th July 2013 (down from £101.3m to £100.4m) due to the misclassification of an element of the Dedicated Schools Grant (£0.9m). A further adjustment has resulted in a change to the HRA year-end position of £13.5m (now showing a deficit of £7.7m) due to a post-audit adjustment to the housing stock revaluation gain / loss figure in the accounts. This has subsequently resulted in a reduction in the value of Council Dwellings on the Balance Sheet (by £14.6m).

The audit process also identified two misclassifications in 2012/13 between 'short term investments' and 'cash and cash equivalents' and 'short term borrowing' and 'long term borrowing'; the non-restatement of the 2011/12 group Comprehensive Income and Expenditure Statement to eliminate intra-group transactions; and revisions to both the 2012/13 and 2011/12 Cash Flow Statements. These adjustments have no impact on the Council's net worth.

11. Overall the Council's net worth has decreased by £80.7m since the 31st March 2012 financial statements (from £561.6m to £480.9m). This is principally due to the worsening position on the Council's net pension deficit (£77.9m).
12. The loss shown in the Comprehensive Income and Expenditure Statement (CIES) (£49.1m), as in 2011/12 (£108.7m), is an indication that the costs of providing the year's services have not been covered by income.
13. Reserves are an indication of the resources available to an authority to deliver services. Not all reserves can be used to deliver services and this is reflected by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves (£100.4m as at 31<sup>st</sup> March 2013), such as the General Fund (£11.9m) and earmarked reserves (£37.6m), are those which Members will be involved in deciding the levels maintained and their use.

Unusable reserves (£380.6m) such as the Revaluation Reserve and the Capital Adjustment Account are determined by technical accounting rules and not available for use by the Council.

14. As part of the annual audit, KPMG are required to assess whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion. KPMG intends to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources as shown in their report. However, they have included a 'report by exception' section in the conclusion to draw attention to the Secretary of State for Education's statement, and statutory direction, about the Council's Children's Services. Whilst this is an important issue, it is unrepresentative of the Council's arrangements for securing economy, efficiency and effectiveness in the majority of its services. Accordingly the value for money conclusion for this year has not been qualified in this respect.
15. The Letter of Representation is issued each year by the Council to its external auditors. This year's letter has been prepared by the Director of Finance and Corporate Services after consulting with senior officers within the Council and must be issued to the external auditor in order to obtain the opinion on the accounts.

#### **OPTIONS CONSIDERED**

16. The Council is subject to statutory external audit and performance evaluation by KPMG and must prepare annual accounts.

#### **IMPACT ON THE COUNCIL'S KEY OBJECTIVES**

17. These are set out in the table below.

<b>Doncaster Priorities</b>	<b>Implications of this initiative</b>
A Prosperous Place	The unqualified opinion of KPMG on the Council's accounts assists with our positive reputation and the organisational assessment of the Council.
Skills & Lifelong Learning	
Healthy & Caring	
Safer, Cleaner & Greener	
Equality of Opportunity (Cross-Cutting)	
Improving Neighbourhoods Together (Cross-cutting)	
Protecting The Environment (Cross-cutting)	

#### **RISK AND ASSUMPTIONS**

18. The table below highlights the most significant risks that could have a negative impact on the deliverability of the Council's financial position and the action taken to mitigate them.

<b>Risks/Assumptions</b>	<b>Probability</b>	<b>Impact</b>	<b>Action taken</b>
Robustness of correct outturn figure	Low	Medium	<ul style="list-style-type: none"> <li>Work has been undertaken during monitoring and closedown process to process all transactions, and prepare for audit. This has included increases in senior officer quality control and checks.</li> </ul>
he audit identifies a material / significant finding or inaccuracy in the production of the accounts.	Low	High	<ul style="list-style-type: none"> <li>Continuous dialogue with KPMG throughout the year</li> <li>Specific discussions on key complex areas as part of the regular liaison group meetings</li> </ul>

## **LEGAL IMPLICATIONS**

19. The Council is subject to statutory external audit and performance evaluation by KPMG.

## **FINANCIAL IMPLICATIONS**

20. The KPMG fee budget is managed by the Director of Finance and Corporate Services and this review is included in the planned expenditure for the 2012/13 audit.

## **CONSULTATION**

21. This report has no significant implications in terms of the following:

Procurement	N/A	Crime & Disorder	N/A
Human Resources	N/A	Human Rights & Equalities	N/A
Buildings, Land and Occupiers	N/A	Environment & Sustainability	N/A
ICT	N/A	Capital Programme	N/A

## **BACKGROUND PAPERS**

22. The full KPMG report is attached. Any further background papers can be obtained directly from KPMG.

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