

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

**STATEMENT OF ACCOUNTS 2014/15
ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE**

EXECUTIVE SUMMARY

1. In accordance with International Standard on Auditing (ISA) 260, the Council's external auditor is required to issue a report detailing the findings from the 2014/15 audit and the key issues that the Committee should consider before the external auditor issues their opinion on the financial statements.
2. The ISA 260 report (Appendix A) has to be considered by 'those charged with governance' before the external auditor can sign the accounts which legally has to be done by 30th September.
3. The external auditor expects to issue an unqualified opinion on the Council's financial statements for 2014/15.
4. Overall the ISA 260 report is an extremely positive one and it recognises the further improvements that have been made by the Council in preparing the Statement of Accounts for audit.
5. The quality of the working papers and the supporting information has improved year-on-year with the working papers, once again, meeting the standards specified in the Accounts Audit Protocol.

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 ISA 260 report;
 - Note the contents of the external audit ISA 260 report;
 - Consider the Letter of Representation and endorse its contents; and
 - Approve the Statement of Accounts 2014/15.

BACKGROUND

7. The Council's 2014/15 accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) accounting standards and the appropriate accounting codes of practice and were approved by the Council's Responsible Finance Officer on the 23rd June and published on the Council's website on 26th June, both dates being within statutory deadlines.
8. The draft accounts were presented to this Committee for information on 16th July 2015. KPMG were presented with these draft accounts on 29th June with working papers being provided on 20th July.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

9. An unqualified audit opinion on the Council's financial statements indicates that there are excellent internal controls in place safeguarding Council resources.

OUTCOMES OF THE AUDIT

10. Since Monday, 20th July the audit has been undertaken and included examination of evidence relevant to the amounts and disclosures in the financial statements and related disclosure notes. It also included an assessment of the significant estimates and judgments made by the Council in the preparation of the financial 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 ISA 260 report.
11. Throughout the audit process the Council's Financial Management team have responded promptly to audit queries which have contributed positively to the audit's satisfactory conclusion. During the audit of the accounts KPMG identified one material misstatement with £29m of Lender Option Borrower Option loans ('LOBOs') being incorrectly classified as short term loans rather than long term loans. This followed a prolonged dialogue with KPMG and associated technical advice. These have now been reclassified in the accounts. It should be noted that this advice was contrary to previous audit advice, received during the 2012/13 audit, which helped to inform the Council's interpretation of the Code and relevant accounting standards and the initial classification of the loans in 2014/15. It should be noted that there is no impact on the General Fund or the cost of provision of services as a result of this change.
12. This continues the year-on-year improvement of the Council in preparing the year end statutory accounts and the following table gives an indication of the improvement in the annual audit process by the Council since 2007/08.

Statement of Accounts for the financial year	Audit recommendations	Adjusted misstatements plus amendments to disclosure notes	Unadjusted items	Total adjusted + unadjusted
2007/08	9	28	0	28
2008/09	7	34	2	36
2009/10	10	28	5	33
2010/11 ^(a)	10	26	7	33
2011/12	3	7	0	7
2012/13	3	7	0	7
2013/14 ^(b)	1	3 ^(c)	0	3
2014/15	1	1 ^(d)	0	1

(a) First year of compliance with IFRS accounting standards

(b) Implementation of Phase 1 of the ERP system in September 2013

(c) Two of the three errors identified, pre-audit, by the Council

(d) Original classification of short term borrowings (LOBOs) partially based on previous KPMG advice

- 13 KPMG have also identified some minor presentational and grammatical changes that have been corrected (e.g. narrative - inconsistent naming of Landsbanki KK; formatting – figures in both £m and £k in the same disclosure note; casting – missing brackets in tables; etc.). None of these amendments have changed the financial results previously reported in the draft financial statements; the outturn position as reported to Cabinet in June; or the reader's interpretation of the accounts. It is a testament to the knowledge and expertise of all staff engaged in the final accounts process that there is just the one material adjustment required this year. This reflects the benefit of key finance officers taking a proactive role in identifying potential risks so that a dialogue can take place with audit at an early stage to discuss and seek agreement on significant, and often highly complex, accounting issues affecting the year's accounts.
14. During the course of the audit, KPMG identified a potential issue with the Council's completion of HMRC's assessments for temporary staff. These assessments enable us to determine whether the temporary staff member should be on the Council's payroll or employed as a sub-contractor and paid via invoice. Whilst KPMG are satisfied that there is no issue to report as a result of their audit work, this has been noted as a recommendation for Internal Audit to follow up as part of their work programme.
15. The accounts were made available for public inspection for 20 working days (in accordance with the Accounts and Audit (England) Regulations 2011) on Monday, 20th July, during which, members of the general public were able to inspect the accounts and raise questions on the financial statements and the associated disclosure notes. During this period no inspection visits were made.
16. KPMG intends to issue an unqualified Value for Money (VfM) conclusion stating that the Council 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 robust financial and governance arrangements within the Council.
17. The Letter of Representation (see Appendix B) requires endorsement by the Committee as an important final stage in the audit of the Council's 2014/15 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.
18. As previously advised to this Committee, the dates for the 2017/18 accounts to be signed by the Responsible Finance Officer and then published will be brought forward to 31st May, with the audited deadline being brought forward to 31st July. The continued improvements in the quality of working papers and supporting information have resulted in this year's audit progressing extremely smoothly, in a more timely fashion than in previous years, and it is expected that the timescale for the production of the 2015/16 draft accounts will be brought forward in advance of this year's dates. Alongside this, it is expected that the date for the approval of the audited accounts will also be brought forward although this is subject to external audit resources being available.

OPTIONS CONSIDERED

19. 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

20.

Priority	Implications
<p>We will support a strong economy where businesses can locate, grow and employ local people.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Be a strong voice for our veterans</i> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	<ul style="list-style-type: none"> • Audited Statement of Accounts provides information on all Council priorities incorporating income and expenditure for all Council services. • An unqualified audit opinion from KPMG on the financial statements and supporting disclosure notes together with an unqualified Value for Money ('VfM') conclusion assists with the positive reputation of the Council and ensure that strong governance is in place.
<p>We will help people to live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
<p>We will make Doncaster a better place to live, with cleaner, more sustainable communities.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
<p>We will support all families to thrive.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
<p>We will deliver modern value for money services.</p>	
<p>We will provide strong leadership and governance, working in partnership.</p>	

RISK AND ASSUMPTIONS

21. 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.

Risks/Assumptions	Probability	Impact	Action taken
Robustness of correct outturn figure	Low	High	<ul style="list-style-type: none"> • Work undertaken during monitoring and closedown to process all transactions correctly, and prepare for audit. • Increase in quality control and internal checks of financial statements and supporting disclosure notes.
The audit identifies a number of material / significant findings or inaccuracies in the production of the accounts.	Low	High	<ul style="list-style-type: none"> • Continuous dialogue with KPMG throughout the year. • In year discussions on key complex areas as part of the regular audit liaison meetings. • Retaining knowledge and experience of key finance officers.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

23. The audit fee budget is managed by the Director of Finance and Corporate Services and this review is included in the planned expenditure for the 2014/15 audit.

HUMAN RESOURCES IMPLICATIONS

24. There are no Human Resources implications contained within this report.

EQUALITY IMPLICATIONS

25. There are no equality implications contained within this report.

CONSULTATION

26. 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

27. Draft Statement of Accounts 2014/15;
Code of Practice on Local Authority Accounting based on IFRS for 2014/15;
ISA 260 report 2014/15; and
Accounts and Audit (England) Regulations 2011

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