

Agenda Item No: 4

LGSS Statement of Accounts Update

To: LGSS Joint Committee

Date: 17th November 2016

From: LGSS Finance

Purpose: To update the Joint Committee on the progress on the audit of the 2015-16 LGSS Statement of Accounts, and on the objection to the 2014-15 LGSS Statement of Accounts.

Recommendation: That the Joint Committee note and comment on the report, and in particular whether a further meeting needs to be scheduled to consider the final 2015-16 Statement of Accounts as per paragraph 3.4.

1. Background

- 1.1 LGSS produces its own annual Statement of Accounts alongside the Accounts that are produced by each authority in their own right. The LGSS accounts encompass LGSS income and expenditure from within each of the host authorities, and also consolidates the LGSS Law accounts. Whilst the single entity accounts of Northamptonshire and Cambridgeshire County Councils include the proportion of LGSS attributable to each authority, the LGSS Statement of Accounts show the combined position across all of the LGSS operational budgets (in other words excluding the managed budgets that LGSS manages on behalf of the host authorities).
- 1.2 The 2015-16 LGSS Statement of Accounts cover the financial year to 31st March 2016, and therefore do not include Milton Keynes Council which became an LGSS shareholder authority on 1st April 2016.
- 1.3 From 1 April 2015, the implementation of the Local Audit and Accountability Act 2014 has meant that joint committees are no longer required to have their accounts separately prepared and audited. Consequently, for the 2015-16 financial year and onwards, production of formal accounts by LGSS is no longer statutorily required. However LGSS has decided to continue to produce accounts as it is committed to accountability and transparency. As these are not statutory accounts they sit outside of the requirements of the Accounts and Audit Regulations 2015, and therefore there is no statutory deadline for publication.
- 1.4 The draft LGSS Statement of Accounts 2015-16 were circulated to Joint Committee members on 9th August 2016. The draft accounts were also presented to the Audit Committees at Northamptonshire and Cambridgeshire County Councils. The accounts and associated working papers have subsequently been passed for audit to LGSS's external auditors, KPMG.

2. Audit of the 2015-16 LGSS and LGSS Law Statement of Accounts

- 2.1 KPMG have been appointed to audit the accounts of both LGSS and LGSS Law. The external auditors presented their audit plans to the Joint Committee on 18th August 2016. The external auditors have subsequently been undertaking their audit work as outlined within those plans.
- 2.2 The auditors were on site at LGSS Law's offices in August to carry out their audit fieldwork and substantive testing. The audit of the LGSS Law accounts is largely complete. As it is the first year that LGSS Law have produced accounts following their first year of trading, officers have worked closely with the auditors to ensure that the accounts meet all the applicable accounting regulations, contain the appropriate disclosures, with sufficient audit evidence. This will ensure a smooth roll forward to subsequent years. One matter which has emerged during the course of the audit of the LGSS Law accounts is in relation to the treatment of the pensions liability relating to LGSS Law staff, and whether this liability should sit within the LGSS Law accounts or within the host authorities' accounts. Subject to the resolution of this matter it is anticipated that the LGSS Law accounts will be signed off by its board at their meeting on 28th November 2016.
- 2.3 The audit fieldwork is also underway on the LGSS accounts. This work started later than originally timetabled. The audit of the host authorities' accounts had to take precedence due to their statutory deadline of 30th September. As the LGSS accounts do not have the same statutory deadline the decision was taken to delay the

commencement of the LGSS audit until the audit of the Council accounts had been completed. Each authority also had to have their Whole of Government Accounts (WGA) submission externally audited prior to completion in October. LGSS's Integrated Closedown Team produce the accounts of NCC, CCC and LGSS, and KPMG's audit team undertake the audit of the NCC accounts as well as the accounts of LGSS and LGSS Law.

- 2.4 The audit fieldwork on the LGSS Accounts commenced on 10th October. This work is in progress. The auditors have been reviewing LGSS's working papers, undertaking substantive testing of the figures and transactions within the accounts, and inspecting supporting documentation.
- 2.5 Their review of payroll expenditure is complete. Sample testing of income, debtors, creditors, and non-payroll expenditure is underway and expected to be completed by 11th November, subject to samples being received by 10th November. During the remainder of the audit further fieldwork will be undertaken by KPMG on testing journal entries, reviewing the cash balances disclosed within the accounts, and reviewing the consolidation of the LGSS Law balances into the LGSS accounts.

3. Next steps and sign off of the 2015-16 accounts

- 3.1 As the LGSS accounts consolidate the accounts of LGSS Law, the LGSS accounts cannot be formally signed off until the LGSS Law accounts have been approved.
- 3.2 As outlined above, it is anticipated that LGSS Law's accounts will be signed off by its board at their meeting on 28th November 2016.
- 3.3 The relevant sections of the founding authority constitutions delegate responsibility to the LGSS Joint Committee for the approval of the annual report which includes the Statement of Accounts. Consequently once the audit has been completed, and the LGSS Accounts have been signed off, the LGSS Accounts will be presented to the Joint Committee for formal sign off by the Chair and by the Director of Finance. At this point KPMG will present their formal audit report to the Joint Committee and issue their audit opinion on the 2015-16 LGSS accounts.
- 3.4 The next scheduled meeting of the Joint Committee is in March 2017. It is anticipated, subject to the conclusion of the matters set out in the rest of this report, that the accounts will be available for sign off by this meeting. Joint Committee members may wish to consider whether a separate committee meeting should be scheduled prior to March in order to approve the accounts once the audit has been completed. Subject to members' availability, a formal meeting in January is suggested.

4. Public objection to the 2014-15 Statement of Accounts

- 4.1 Joint Committee Members will be aware, a member of the public submitted a formal objection to the 2014-15 LGSS Statement of Accounts. This was a lengthy and wide-ranging objection, which KPMG described as one of the most complicated that they had seen. It concerns a variety of matters including the method of preparation of the accounts, the judgements that had been made, and the accounting treatments in respect of income, expenditure, VAT and cash. The 2014-15 LGSS Statement of Accounts cannot be formally signed off until this objection has been concluded.

- 4.2 Once an objection has been raised there is a formal process which must be followed. This is overseen by Public Sector Audit Appointments (PSAA), a subsidiary of the Local Government Association, which is responsible for the functions previously undertaken by the Audit Commission.
- 4.3 Following the submission of the objection KPMG undertook further audit testing. Officers provided further information to KPMG and have answered questions on the points raised in the objection letter.
- 4.4 KPMG issued their response outlining their preliminary findings to the objector in May/June 2016. The objector then had 30 days to respond, during which time a further letter to KPMG was submitted.
- 4.5 KPMG have since been considering the content of this second letter, and officers have provided further information to KPMG in relation to the points raised. The latest position is therefore that the objection is ongoing. It was hoped that a conclusion would be reached by the time of the November Joint Committee meeting, however the objection does still remain ongoing.

5. Next steps in relation to the public objection

- 5.1 Once KPMG have reached their final opinion on the objection they will submit their findings to the PSAA for review and consideration. It is not known how long the PSAA review will take once it commences. Once this review has been completed the objection will be formally concluded and the 2014-15 LGSS accounts can be signed off. There would be no further recourse to appeals or further objections after that point, although the objector could pursue legal action.
- 5.2 Given that both the 2014-15 and 2015-16 LGSS Accounts are still to be approved, once the objection is concluded it would be considered good practice for the Joint Committee to approve both year's accounts at the same meeting; subject to both being completed in a similar timescale.

6. Recommendation

- 6.1 The Joint Committee is asked to note and comment on the report and in particular whether a further meeting needs to be scheduled to consider the final 2015-16 Statement of Accounts as per paragraph 3.4.