

**Agenda Item No: 3**

**LGSS Statement of Accounts**

**To:** LGSS Joint Committee

**Date:** 19<sup>th</sup> January 2017

**From:** LGSS Finance

**Purpose:** To present the Joint Committee with:

- a) The final 2014-15 LGSS Statement of Accounts for approval subject to the conclusion of the public objection; and
- b) The final 2015-16 LGSS Statement of Accounts for the Committee for approval prior to KPMG issuing their audit opinion.

**Recommendation:** 1: The Joint Committee note the progress in relation to the public objection on the 2014-15 LGSS Statement of Accounts following KPMG's investigations; and

2: That the Joint Committee delegate authority to approve the 2014-15 and 2015-16 LGSS Statement of Accounts to the Chair of the Joint Committee and the Director of Finance, subject to there being no material changes required upon the conclusion of the public objection.

**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 each council 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 LGSS Statement of Accounts presented as an appendix to this report cover the period up to 31<sup>st</sup> March 2016, and therefore do not include Milton Keynes Council which became an LGSS shareholder authority on 1<sup>st</sup> 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 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.
- 1.5 The LGSS Statement of Accounts are externally audited by independent auditors. KPMG have been appointed to undertake this work. This audit has now been completed. KPMG's audit findings are set out in their report to those charged with governance. This is known as the ISA260 report.

## **2. Public objection to the 2014-15 Statement of Accounts**

- 2.1 Joint Committee Members will be aware that 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. It concerned 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 the conclusion of this objection.
- 2.2 Once an objection has been raised there is a formal process which must be followed. This is overseen by Public Sector Audit Appointments (PSAA), which is responsible for the functions previously undertaken by the Audit Commission.
- 2.3 Following the submission of the objection KPMG undertook further audit testing. Officers provided further information to KPMG and answered questions on the points raised in the objection letter.
- 2.4 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.
- 2.5 KPMG then considered the content of this second letter, and officers provided further information to KPMG in relation to the points raised.
- 2.6 An update was provided to the Joint Committee at the 17<sup>th</sup> November meeting. At that point the objection remained in progress. Subsequently officers have had further meetings with KPMG and have provided additional information to answer the remaining questions.
- 2.7 At the time of writing LGSS has not received confirmation that the objection has been concluded. It is currently going through KPMG's internal review process and will then be reviewed by the PSAA. Once that process is complete KPMG will issue a final response to the objector outlining their findings.
- 2.8 To date no changes have been required to the 2014-15 LGSS Statement of Accounts as a result of the objection. For completeness the 2014-15 accounts are re-presented to the Joint Committee as Appendix 1 to this report. This document is the same as the accounts that were presented to the Joint Committee on 10<sup>th</sup> September 2015.
- 2.9 The 2014-15 LGSS Statement of Accounts cannot be formally completed until the conclusion of the public objection. At the meeting on 10<sup>th</sup> September 2015 the

Committee resolved to delegate the authority to approve the 2014-15 accounts to the Director of Finance and the Chair of the Joint Committee, subject to no material changes being required to the document. The Joint Committee is recommended to maintain this delegation until the conclusion of the public objection. As set out in paragraph 2.8 no changes have been made to the 2014-15 accounts to date. If any material changes were to be required then the accounts will be re-presented to the Joint Committee.

### **3. Audit of the 2015-16 LGSS and LGSS Law Statement of Accounts**

- 3.1 As per the update provided to the Joint Committee on 17<sup>th</sup> November 2016, the audit fieldwork on the 2015-16 accounts has been undertaken by KPMG. This work started later than originally timetabled. The audit of the host authorities' accounts had to take precedence due to their statutory deadline of 30<sup>th</sup> 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.
- 3.2 As at 17<sup>th</sup> November this work was still in progress. The audit of the 2015-16 accounts is now reaching completion. The final 2015-16 Statement of Accounts is presented to the Joint Committee in Appendix 2. This incorporates a number of changes from the draft set of accounts that were circulated in August. These are set out in section 4.
- 3.3 KPMG have also undertaken a separate audit of the accounts produced by LGSS Law. This audit has been completed and LGSS Law's accounts were signed off in December. The final LGSS accounts for 2015-16 consolidate the figures for LGSS Law into group accounts.
- 3.4 KPMG will not be able to issue their audit opinion on the 2015-16 LGSS Statement of Accounts until the public objection to the 2014-15 accounts has been concluded and the 2014-15 LGSS Statement of Accounts have been signed off.

### **4. Changes between the draft and final Statement of Accounts**

- 4.1 The draft 2015-16 LGSS Statement of Accounts were circulated to Joint Committee members on 9<sup>th</sup> August 2016. The final set of accounts following the conclusion of audit are presented in Appendix 2. There are a number of changes between the draft and final versions and these are set out below.
- 4.2 **Branding.** The branding/design of the document has been updated to incorporate the revised LGSS logo and colour scheme
- 4.3 **Managing Director introduction.** A foreword has been added, including an introduction by the LGSS Managing Director, John Kane.
- 4.4 **Comprehensive Income and Expenditure Statement.** The format/layout of this statement has been amended in order to comply with the requirements of the CIPFA Code of Practice. In the draft accounts the figures within this statement had been split across LGSS directorate headings (Finance, IT, Law Property & Governance etc). This was intended to aid the reader, as it would allow comparison to the management accounts which are presented on that basis. However this has had to be amended as under the Code all of LGSS's activity is classified as trading. Therefore it has been shown as Financing and Investment Income/Expenditure on the face of the statement in order to comply with the requirements of the Code. The split across directorate headings is now shown on a separate table within the accounts.

- 4.5 **Transactions with Related Parties.** This disclosure has been expanded. The budget allocated to LGSS by each of the councils is now shown. The value of intercompany transactions between LGSS and LGSS Law is also disclosed.
- 4.6 **External Audit Costs.** The cost of the additional audit work relating the 14-15 accounts and the public objection is now disclosed.
- 4.7 **Pension Schemes accounted for as a Defined Benefit Scheme.** This disclosure was not included in the draft accounts and has now been added. Since the production of the draft accounts the accounting treatment of the pension arrangements for LGSS Law has been confirmed. This has been accounted for as a defined benefit scheme, and consequently the Code requires that a number of disclosures are made which set out the net pension liability, movement in plan assets and defined benefit obligation. The assumptions used to calculate the LGSS Law pensions figures have also been disclosed.
- 4.8 **LGSS Law.** The final LGSS accounts incorporate any changes that have been made to LGSS Law's figures as a result of their audit. This has resulted in changes to the debtors, creditors, cash, and non current liability figures within the group accounts; and takes account of the confirmation of the pensions treatment for LGSS Law as set out above.
- 4.9 **Other adjustments.** There have been some small adjustments made to the debtors and creditors figures on the LGSS balance sheet to take account of the equalisation process. A £100k start-up loan to LGSS Law has been removed from the accounts as this loan was made by NCC rather than LGSS. These adjustments are set out within Appendix 2 of the auditors's ISA260 report.
- 4.10 All other amendments to the 2015-16 Statement of Accounts are individually immaterial.

## **5. Recommendations**

- 5.1 The Joint Committee is asked to note the progress in relation to the public objection to the 2014-15 LGSS Statement of Accounts.
- 5.2 As set out in paragraph 2.9 the Joint Committee is recommended to maintain the delegation of authority to approve the LGSS Annual Report 2014-15 to the Director of Finance and Chair of the Joint Committee, subject to the conclusion of the public inspection and no material changes being required.
- 5.3 The Joint Committee is recommended to delegate authority to approve the LGSS Annual Report 2015-16, including the Statement of Accounts and Annual Governance Statement, to the Director of Finance and the Chair of the Joint Committee, subject to no material changes being required to the accounts.

## **Appendices**

Appendix 1 – LGSS Annual Report 2014-15

Appendix 2 – LGSS Annual Report 2015-16