

<b>Item No.</b> 7	<b>Classification:</b> Open	<b>Date:</b> 28/06/07	<b>Meeting Name:</b> Audit Committee
<b>Report title:</b>		Statement of Accounts 2006/07 including Statement on Internal Control.	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Finance Director	

## **RECOMMENDATIONS**

1. That the Audit Committee approves the Statement of Accounts 2006/07, as attached (Appendix 1).
2. That the Audit Committee approves the Statement on Internal Control 2006/07, as attached (Appendix 2).
3. That the chair of the Audit Committee signs and dates the Accounts and the Statement on Internal Control as being approved by the Audit Committee.

## **BACKGROUND INFORMATION**

4. The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit Amendment Regulations 2006, require that the Statement of Accounts and the Statement on Internal Control for 2006/07 be presented to an appropriate Committee of the body to which the Accounts relate by 30<sup>th</sup> June 2007. Under the revised constitution, the Audit Committee is the body that formally receives the Statement of Accounts.
5. The Accounts and Audit Regulations 2003 as amended also require that the chair of the committee or meeting approving the Accounts should sign and date the Accounts. As the receiving committee is the Audit Committee, the chair should sign and date the Accounts. Signing the Accounts does not pass any formal responsibility to the person signing, or override the Finance Director's responsibilities in certifying the Accounts, but is required by the regulations as a formality to show that the Council's processes in preparing and presenting the Accounts have been completed.
6. The regulations further require that a committee of the relevant body approve a Statement on Internal Control. Following this approval, the Statement on Internal Control should be signed by the most senior member of the council and most senior officer, that is the Leader of the Council and the Chief Executive.

## **KEY ISSUES FOR CONSIDERATION**

### **Statement of Accounts**

7. The Statement of Accounts for 2006/07 was signed by the Finance Director on 22 June 2007, in accordance with the Accounts and Audit Regulations 2003 as amended. A copy of the Accounts is attached to this report (Appendix 1).
8. As mentioned above, the regulations require that the 2006/07 Accounts be approved by the Audit Committee by 30 June 2007. If, in the opinion of the District Auditor, substantial changes are required to the Accounts following the audit, then the Accounts must be re-published after the audit opinion has been made, and by 30 September 2007.
9. Additional copies of the Statement of Accounts are available on request from Financial Management Services to all interested parties. An electronic copy of the Accounts will also be available from the Southwark website shortly after the audit Committee meeting. The Accounts for the seven years from 1999/2000 to 2005/06 are also available on the website.
10. The accounts will be open for public inspection from 5 July to 1 August 2007. The District Auditor will be available on Thursday 2 August 2007 to hear any questions from members of the public. It is intended that the Statement of Accounts containing the Auditor's opinion will be available later in the autumn, within the statutory 6-month period following the Accounts' year-end.

### **Statement on Internal Control**

11. Every year, each local authority is required by law to conduct a review of the effectiveness of its corporate governance arrangements and to publish a Statement on Internal Control along with its financial statements. The objective of the review is to provide assurance on the effectiveness of the corporate internal control and risk management systems and to produce a management action plan to address identified weaknesses. The findings of this review should be considered by a committee of the council, or by members of the council meeting as a whole. A copy of the Statement on Internal Control is attached to this report at Appendix 2.
12. The review for this year was led corporately by a working group consisting of officers from Financial Management Services, Legal and Democratic Services, and Corporate Strategy and was conducted in accordance with CIPFA best practice guidelines. This review was carried out in three stages:
  - i. Interviews with key officers in the council to identify and document the processes for:
    - establishing our principal statutory obligations and organisational objectives
    - identifying the principal risks to the achievement of our objectives
    - identifying and evaluating key controls to manage our principal risks
    - obtaining assurances on the effectiveness of key controls
    - evaluating the assurances and identifying gaps in control / assurances

- completing an action plan to address weaknesses and ensure continuous improvement of the system of internal control
  - ii. Each strategic director produced a signed declaration confirming that adequate internal controls have been operating within their department during the year and an action plan, where appropriate, to address any significant gaps or weaknesses identified.
  - iii. The officer working group reviewed the results of stages 1 and 2, as well as the Audit Commission Annual Audit and Inspection Letter, PwC Annual Audit Report and individual audit reports and agreed the wording of the Statement on Internal Control and what should be reported as “significant” internal control issues.
13. The final draft of the Statement on Internal Control was agreed by the Finance Director and the Chief Executive. Subject to the approval of this committee, the final Statement on Internal Control will need to be signed by the Leader of the Council and the Chief Executive.
14. An amendment to the Accounts and Audit regulations in 2006 requires the council to review the effectiveness of its system of internal audit once a year and for the findings of the review to be considered by a committee of the council, or by the council as a whole, as part of the consideration of the system of internal control referred to in the Statement on Internal Control. This review was carried out by the new Head of Audit and Risk by evaluating Southwark's internal audit arrangements with the CIPFA Code of Practice for internal audit in local government. The findings of this review have been incorporated into the Statement on Internal Control.

### **Resource Implications**

15. As forecast in the quarterly reports to the Executive through 2006/7, the General Fund budget outturn shows a broadly balanced overall position with a small surplus of £0.5m, although there were some significant variations in Adult Social Care (£4.4m) and Children's Social Care (£0.9m) due largely to placement pressures. These pressures were offset within the General Fund by additional interest earnings on balances (£4.26m) and the provision set aside for prudential borrowing (£1m) which was not required in 2006/7. The planned use of corporate reserves offset specific project and one-off costs, including Southwark Schools for the Future (£2.14m), Every Child Matters (£1.08m) and Peckham Pulse (£2.15m). Also, as planned in setting the budget for 2006/07, £1.488m of the Local Authority Business Growth Incentive (LABGI) grant was utilised to support the overall General Fund budget. General Fund balance as at 31 March 2007 is £16.8m, an increase of £1.3m over the previous year. The HRA balance stands at £37.4m, an increase of £5.4m. The Collection Fund deficit as at 31 March 2007 was £1.3m.

### **Consultation**

16. Consultation on the Accounts is carried out through the public inspection period, and by access to District Auditor on the appointed day.

## REASON FOR LATENESS

17. Over the last four years the Government has reduced the time available to produce the Accounts from 6 months to 3 months, bringing forward the deadline from 30 September to 30 June. With this substantial compression of the work needed, set alongside substantial changes to the main statements, it was not possible to prepare the Accounts in time for the main agenda. Improvements will be made in future years to ensure that the Accounts are produced in time for the main agenda.

## REASON FOR URGENCY

18. The statutory deadline for receiving the 2006/07 Accounts at the Audit Committee Assembly is 30 June 2007.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Closing files 2006/07	Financial Management Services Town Hall, Room 4.07	Dennis Callaghan 020 7525 4375

## AUDIT TRAIL

<b>Lead Officer</b>	Duncan Whitfield, Finance Director	
<b>Report Author</b>	Simon Hughes, Assistant Finance Director	
	Dennis Callaghan, Chief Accountant	
<b>Version</b>	Final	
<b>Dated</b>	22/06/07	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Legal and Democratic Services	No	No
Chief Finance Officer	Yes	Yes
<b>Executive Member</b>	N/A	N/A
<b>Date final report sent to Constitutional Support Services</b>	22/06/07	