

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 4
<b>24 SEPTEMBER 2012</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	John Harrison, Executive Director of Strategic Resources Steven Pilsworth, Head of Corporate Services	☎ 452398 ☎ 384564

**2011/12 REPORT TO THOSE CHARGED WITH GOVERNANCE AND STATEMENT OF ACCOUNTS**

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> John Harrison, Executive Director Strategic Resources	<b>Deadline date :</b> 24 September 2012
The Audit Committee is asked to:-	
<ol style="list-style-type: none"> <li>1. Receive and approve the “Report to those charged with governance (ISA260) 2011/12 Audit” from PricewaterhouseCoopers (PwC), the Council’s external auditors.</li> <li>2. To make any necessary recommendations in light of the report</li> <li>3. Receive and approve the audited Statement of Accounts 2011/12</li> </ol>	

**1. ORIGIN OF REPORT**

- 1.1. This report is submitted to Audit Committee following completion of the External Audit on the Statement of Accounts 2011/12 by PricewaterhouseCoopers (PwC). This report is required to be considered by the Audit Committee on behalf of the Council by 30 September 2012.
- 1.2. This is in accordance with the Committees Terms of Reference – 2.2.19 to review the annual statement of accounts and 2.2.20 to consider the external audit report to those charged with governance on issues arising from the audit of accounts.
- 1.3. This report follows on from the consideration of the Council’s Statement of Accounts by this Committee on 25 June 2012.
- 1.4. This report is submitted by the Council’s Section 151 Officer, the Executive Director Strategic Resources, as part of his statutory duties.

**2. PURPOSE AND REASON FOR REPORT**

- 2.1 The purpose of this report is for the Audit Committee to:
  - Receive and note the “Report to those charged with governance (ISA260) 2011/12 Audit” from PwC on behalf of the Council.
  - To make any necessary recommendations in light of the report
  - To receive and approve the audited Statement of Accounts.

**3. TIMESCALE**

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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#### 4. 2011/12 REPORT TO THOSE CHARGED WITH GOVERNANCE

- 4.1. The External auditors have a statutory requirement to report to members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK and Ireland) (ISA(UK&I) 260 – "Communication of audit matters with those charged with governance". The report is known as the ISA 260.
- 4.2. The report for 2011/12 from PricewaterhouseCoopers, our External Auditors is attached at Appendix 1.
- 4.3. There are a number of sections within the report as follows:
- a) **Executive summary** – Describes the purpose of the report, any significant matters and areas that should be drawn to the audit committee's attention.
  - b) **Significant audit and accounting matters** – this section forms the main content of the report, and consists of a number of subsections, a number of these are summarised below:
    - Significant risks – the table repeats contents of the Audit Plan considered by Audit Committee 26 March 2012. The table notes that all areas of risk were tested by PwC with no matters to bring to the attention of the Audit Committee.
    - Accounts - the items listed as outstanding represent areas of work for the audit team to complete at the time of writing the report, rather than as a result of delays caused through a lack of information from Council officers.
    - Accounting Issues – three areas are highlighted (considered in greater detail in 4.4) :
      - Accounting for the transfer of Adult Social Care
      - Valuation of Property, Plant, and Equipment
      - Local Authority Mortgage Scheme (LAMS)
    - Misstatements and significant audit adjustments – other than minor amendments to the presentation of a few notes to the accounts, there is nothing to report.
    - Judgements and accounting estimates – significant judgements made by the Council are noted by PwC and there are no matters to bring to Audit Committee attention, or challenge of the Council's accounting treatment.
    - Accounting Issues – new requirements in 2011/12 Code of Practice – three new changes are considered by PwC, Heritage Assets, Carbon Reduction Commitment, and Exit packages. PwC have reviewed the Council accounting treatment of these new requirements with no matters to bring to Audit Committee attention.
  - d) **Risk of fraud** – PwC are seeking members' confirmation that there have been no changes to their view of fraud risk and no additional matters have arisen that should be brought to their attention.
  - e) **Fees update** – fees are currently in line with proposals.
  - f) **Appendix** - a copy of the letter of representation
- 4.4. The following table provides further detail on the Accounting Issues raised in the PwC report, and the actions the Council has / will undertake:

PwC Report	Management Action
The main implication of merger accounting is that the Council must account for the Adult Social Care (ASC) service as is if had always delivered the services directly, including all of its income and expenditure, assets and liabilities for both the 2010/11 and 2011/12 (up to 1 March 2012) year. This would have	The Council assessed the impact of Merger Accounting to its accounts, and concluded that the adjustments required were immaterial to the accounts and further adjustments and inclusion would not aid the reader.  PwC noted a difference between what the PCT accounted for as ASC expenditure and

PwC Report	Management Action
<p>required the restatement of the prior period figures in this year's accounts.</p> <p>However, a prior period adjustment is only required where there is a material impact on the accounts. The Council did not process a prior period adjustment in its draft accounts, as it had determined that the impact was not material. Additionally the Council did not process any "merger accounting" changes in the 2011/12 figures, again on the grounds of materiality. We performed a comparison between what is already included in the accounts and what should be in the accounts under "merger accounting" principles, based on figures provided by the PCT's auditors, regarding the income and expenditure and assets and liabilities associated with the adult social care function. We are not minded to challenge the Council's assessment that the impact of merger accounting was not material.</p> <p>However, our comparison has highlighted that the ASC function incurred a greater deficit in 2011/12, in that there were additional costs and income associated with ASC that were not included in the Council's accounts because they were costs directly incurred by the PCT that related to ASC.</p>	<p>what the Council had included in its accounts as the contribution it had made to the Pooled Partnership. However a detailed breakdown as to what constituted this £1.26m could not be ascertained. The Council has no liability for this sum.</p> <p>In the 2012/13 Medium Term Financial Strategy (MTFS) the Council recognised that there would be significant pressures in ASC through increases in numbers of people needing care, and increase in need. The MTFS included additional funding to cover these pressures.</p>
<p>The Council reviews assets with significant capital additions in the year, engaging external valuers to revalue these assets at the end of the year. The Council's policy is then to apply depreciation to these assets (rather than to have applied it before the valuation). This policy is not in contravention to the Code, however, the effect of applying this depreciation policy is that the net book value of the assets concerned is recorded in the accounts at 31 March 2012 as £55.75m, whereas the valuation of those assets as per the valuation reports at 31 March 2012 is £56.96m, a difference of £1.2m. We recommend the depreciation policy be reconsidered, so that the closing net book value of assets matches valuation reports, where the valuation date is 31 March.</p>	<p>The Council has operated this depreciation policy since 2006, to ensure that depreciation was not understated for assets where significant additions work had been undertaken during the year.</p> <p>The Council is currently implementing a fully integrated property database, which will facilitate the calculation of capital accounting transactions. The Council's current policy with regards to 31 March depreciation will be reviewed as part of this implementation, and the Council's accounting policies updated accordingly.</p>
<p>The Council has treated its payment of £1m to Lloyds as capital expenditure. The justification for this treatment is regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, which defines as capital expenditure "... the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third</p>	<p>The substance of the transaction is to facilitate a greater amount of loan to a mortgagor than would otherwise be available. It would not be within an authority's powers to designate the payment as an investment.</p> <p>The Councils interpretation is that the payment is a loan / financial assistance towards expenditure which would, if incurred by the</p>

PwC Report	Management Action
<p><i>party, towards expenditure which would, if incurred by the authority, be capital expenditure".</i></p> <p>We consider that an alternative interpretation of statute may be appropriate as, although the lender would not have made its loan to the borrower without the Council having placed money on deposit with it, the Council may not have a relationship with the borrower making the house purchase sufficient for regulation 25(1)(c) to be effective.</p>	<p>authority, be capital expenditure. If a local authority were granting a loan for house purchase, it would be treated as capital expenditure.</p> <p>If the statute or code of practice changed, then the authority would revisit its approach as advised.</p>

## 5. MANAGEMENT REPRESENTATION LETTER

- 5.1. The Executive Director Strategic Resources, as Chief Finance Officer, is required to make representations on behalf of the Council in a number of areas in relation to the preparation of the Statement of Accounts. The letter is attached at Appendix 2 for review by Audit Committee.

## 6. STATEMENT OF ACCOUNTS 2011/12

- 6.1. The production of a timely Statement of Accounts, which is free from material error, is a key test of the robustness of financial processes and underpins the financial standing of an organisation. The Council has achieved this through the presentation of the Statement of Accounts in both June and September to Audit Committee, and also through the completion of a successful external audit process.
- 6.2. As noted in the PwC report, the Council has established a good track record of preparing quality draft accounts and electronic working papers and this good practice has again continued for the 2011/12 accounts. This has subsequently enabled the audit process to be completed efficiently with the number of additional auditor queries kept to a minimum.
- 6.3. The draft Statement of Accounts was considered by Audit Committee on 25 June 2012 and has subsequently been the subject of external audit by PwC.
- 6.4. The Audit culminated in a clearance meeting on 5 September 2012, which included PwC's Engagement Manager and the Council's Executive Director Strategic Resources. The meeting is the opportunity for PwC to outline their key findings and for the Section 151 Officer to challenge those findings where necessary.
- 6.5. Following the external audit presentational amendments have been made to the draft Statement of Accounts (presented to Committee in June) with regards to Property, Plant and Equipment, and Assets Held for Sale. This outcome is a credit to all the staff involved in the production of the Statement of Accounts, and thanks are extended to all staff who contributed to the closure process, either directly or indirectly.
- 6.6. The audited Statement of Accounts for 2011/12 is attached at Appendix 3 for formal approval by the Audit Committee.

## 7. CONSULTATION

The draft PwC report was discussed with the Executive Director Strategic Resources at the final audit clearance meeting on 5 September 2012.

**8. ANTICIPATED OUTCOMES**

As set out in the report.

**9. REASONS FOR RECOMMENDATIONS**

Para 2.2.19 of the Constitution requires the Audit Committee to “review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.”

**10. ALTERNATIVE OPTIONS CONSIDERED**

The Statement of Accounts has been prepared in accordance with the Code and hence there are no alternative formats.

**11. IMPLICATIONS**

There are no legal or financial implications of this report.

**12. BACKGROUND DOCUMENTS**

(Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Council Constitution

**13. APPENDICES**

- Appendix 1 - ISA260;
- Appendix 2 - Management representation letter being; and
- Appendix 3 - Statement of Accounts.

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