

<b>AUDIT COMMITTEE</b>	Agenda Item 8b
<b>27<sup>th</sup> JUNE 2011</b>	

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

## STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

<b>RECOMMENDATIONS</b>	
<b>FROM : Executive Director - Strategic Resources</b>	<b>Deadline date : 27 June 2011;</b> <i>statutory deadline for approving Accounts</i>
<p>1. To note the changing role of Audit Committee in the approval of the Council's annual accounts, see points 4.16 to 4.20</p> <p>2. For members to review and comment on the Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2011.</p>	

### 1. ORIGIN OF REPORT

This report forms part of the regular pattern of reporting on the Council's financial position.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1. The Council must consider and approve its Accounts at a meeting of either the full Council or a Committee of the Council. This is a requirement of the Accounts & Audit Regulations 2011. The Council's Constitution delegates this matter to the Audit Committee.
- 2.2. The Accounts must be signed and certified by 30 June 2011 by the Council's Section 151 officer (Executive Director – Strategic Resources), in accordance with the Accounts and Audit Regulations 2011.
- 2.3. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly the financial position of the Council at 31 March 2011.
- 2.4. The Audit Committee is required to approve the Accounts no later than 30 September 2011 following, and in the knowledge of, the audit findings.

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	Not applicable
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## **4. KEY ISSUES**

### **International Financial Reporting Standards (IFRS)**

- 4.1. In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt International Financial Reporting Standards (IFRSs) as this was seen as best practice and allowed for international comparisons to be made. The 2010/11 Statement of Accounts is the first set of accounts the Council has produced under IFRS.
- 4.2. In the transition to IFRS based accounts the Council's finance team has been required to restate the 2008/09 and 2009/10 financial years for inclusion in accounts, whilst also producing 2010/11 financial statements.
- 4.3. The significant alterations to the treatment of transactions in the accounts are:
  - Salaries and Pensions – untaken holiday pay and similar items accrued for at the year end
  - Government Grants and Contributions – capital grants are recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure
  - Leases – different tests used to determine whether a lease is a finance or operating lease. The classification of a lease leads to a different impact on the Comprehensive Income and Expenditure Statement and Balance Sheet
  - Private Finance Initiative (PFI) – there has been clarification with regards to the treatment of schools with Foundation status which occupy an asset that was funded via the PFI arrangement. During 2009/10 the asset and liability of the PFI arrangement were brought onto the Council's balance sheet, however this treatment was in conflict with the Foundation status and means that the Council's balance sheet has now been amended to show the liability only.
- 4.4. These adjustments are a change in accounting treatment only, and have no impact on Council Tax.
- 4.5. There are also significant amendments to the presentation of the accounts, which include:
  - New financial statements, including the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement
  - Additional supporting notes and disclosures which provide supplementary information to the financial statements. An example of such a new note is Note 16 – 'Amounts Reported for Resource Allocation Decisions' which is provided across four separate tables. Two of the tables provide a segmental analysis of the Council's income and expenditure per the Council management structure for the 2009/10 and 2010/11 financial years. The remaining two tables reconcile the note back to the Comprehensive Income and Expenditure Statement for the respective years.

### **Format of the Accounts 2010/11**

- 4.6. The Accounts for 2010/11 conform with CIPFA's (Chartered Institute of Public Finance & Accountancy) Best Value Code of Practice for Local Authority Accounts and the new Code of Practice on Local Authority Accounting (the Code). The individual financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of the Council.

- 4.7. The key contents of the various sections are as follows:
- *Explanatory Foreword* - provides an understandable guide to the most significant matters reported in the accounts.
  - *Statement of Responsibilities* – sets out the responsibilities of the Council and the chief financial officer in respect of the Statement of Accounts
  - *Comprehensive Income and Expenditure Statement* – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation
  - *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council
  - *Balance Sheet* – shows the value of the assets and liabilities recognised by the Council as at 31 March 2011
  - *Cash Flow Statement* – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2010/11
  - *Notes to the Financial Statements* - the various statements are supported by technical *Notes* and by the *Statement of Accounting Policies*
  - *The Collection Fund & Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
  - *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council
  - *Annual Governance Statement* – identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded

#### **Schools**

- 4.8. Details on Schools Balances are shown in Note 18 to the Core Financial Statements in the Accounts. This shows that there was a net increase in School Balances during 2010/11 of £1.6m from £5.1m to £6.7m. There were 4 schools (from 5 at 31 March 2010) with deficit balances at 31 March 2011. These Schools are required to submit plans to the Council demonstrating how these deficits will be overcome.

#### **Collection Fund**

- 4.9. During 2010/11, Council Tax collection rates had an in year final collection rate of 95.76%.
- 4.10. The 2009 SoRP brought a change of accounting policy with regards to the Collection Fund, such that any surplus or deficit incurred is shown in the Income and Expenditure Account and the impact of this reversed out through the Movement in Reserves Statement.
- 4.11. For 2010/11 the Collection Fund incurred a deficit of £1.2m for the year of which the Council's share of £1.0m (£0.65m in 2009/10) is shown in the Comprehensive Income and Expenditure Statement.

#### **Balance Sheet at 31 March 2011**

- 4.12. The Statement of Accounts includes a Balance Sheet that sets out the net worth of the Council at the balance sheet date. The following paragraphs give a high level indication of the reason for movements from last year restated Balance Sheet which total a net increase of £135.0m.

- 4.13. The Revaluation Reserve represents the net movement in the value of fixed assets since 1 April 2007 and it increased by £42m during the year.
- 4.14. The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them. This account increased by £1.2m, as charges such as depreciation and impairment were lower than the capital receipts and grants income for the year.
- 4.15. The Pension Reserve, which balances the Pensions Liability, has decreased by £85.5m, which is largely a result of:
- positive asset returns and falling long term inflation expectations
  - the pension increase change from RPI to CPI
- 4.16. Changes in the revenue related balances arose from an increase in schools balances of £1.6m.

#### **Reserves and Balances**

- 4.17. As reported to Council in February 2011, the Executive Director - Strategic Resources is charged with considering the level of Reserves and Balances required by the Council and making recommendations as to the adequacy of the amounts held. The closing balance for the General Fund for 2010/11 was £6.0m which is in line with MTFS.

#### **Approval, signing, inspection and audit arrangements - the Accounts and Audit Regulations 2011**

- 4.18. Under the previous Accounts and Audit Regulations 2003 members were required to approve the annual accounts before they were reviewed by the external auditor. This was not consistent with the private sector or elsewhere in the public sector, where directors or board members are aware of the findings of the audit before they approve the accounts.
- 4.19. The revised Accounts and Audit Regulations 2011, include the following for the approval and publication of the annual accounts:
- the responsible financial officer must certify the presentation of the annual accounts no later than the 30 June
  - the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members no later than 30 September
  - the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given
- 4.20. Whilst under the new regulations the Council's Audit Committee is no longer required to approve the accounts prior to audit, the Council considers it is good practice for members to review and comment on the accounts prior to the Chief Financial Officer's certification. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification and the start of the audit. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.
- 4.21. The Auditor will decide the date from which they will receive questions on and objections to the Accounts. The Accounts will be placed on deposit for public inspection for not less than 20 working days before the date set by the Auditor (Regulation 14).

- 4.22. At the conclusion of the Audit, the Auditor will issue a report on the Financial Statements and will issue the Audit Certificate for 2010/11. This will be considered at the Audit Committee meeting on 26 September 2011.

#### **Annual Governance Statement**

- 4.23. The Statement of Accounts includes the Annual Governance Statement. This document is being approved by Audit Committee on 27 June 2011.

#### **Appendices**

Statement of Accounts 2010/11

#### **5. CONSULTATION**

No external consultation has been undertaken.

#### **6. ANTICIPATED OUTCOMES**

As set out in the report.

#### **7. REASONS FOR RECOMMENDATIONS**

The Accounts and Audit Regulations 2011 require that the Statements of Accounts be prepared to include the statements set out in Regulation 7 and that the signing and approval of the Accounts be undertaken as set out at Regulation 13 of those regulations. Approval of the Accounts is a non-executive function.

#### **8. ALTERNATIVE OPTIONS CONSIDERED**

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code) and hence alternative options are limited.

#### **9. IMPLICATIONS**

There are no Human Resource issues arising directly from the recommendations in this report.

#### **10. BACKGROUND DOCUMENTS**

- Budgetary control reports through 2010/11
- Council February 2010: Medium Term Financial Strategy
- The Accounts and Audit Regulations (England) 2011, Statutory Instrument

#### **11. APPENDICES**

Appendix 1 - Statement of Accounts

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