

STATEMENT OF ACCOUNTS 2010/11 AND EXTERNAL AUDITOR'S GOVERNANCE REPORT

Submitted by: **Head of Finance**

Portfolio **Resources and Efficiency**

Ward(s) affected **All indirectly**

Purpose of the Report

To approve the statement of accounts, receive the Audit Commission's Governance Report for 2010/11 and to agree the Letter of Representation to the Auditor.

Recommendations

- (a) That the Statement of Accounts 2010/11 be approved and signed by the person presiding at the meeting.**
- (b) That the Annual Governance Report for 2010/11 be received.**
- (c) That the Letter of Representation be approved for signature by the Council's Section 151 Officer.**

Reasons

It is a statutory requirement, contained in the Accounts and Audit Regulations 2011, that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end and that this is approved by a Committee no later than 30 September in the year following that to which the Statement relates.

The External Auditor appointed by the Audit Commission (the District Auditor) is required, according to the International Standard on Auditing 260 (ISA 260), to report to you on matters affecting governance via a governance report.

The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts.

1. Background

- 1.1 The Committee received a report on 28 July in relation to the draft Statement of Accounts and the Outturn position for 2010/11. The report explained the changes arising from new Accounts and Audit Regulations, which meant that the 2010/11 Statement of Accounts does not have to be formally approved by a Council Committee until 30 September 2011 (previously this was 30 June). However, it was felt that members needed an earlier update on the position for 2010/11, which was the reason for this earlier report. The report set out information in relation to the outturn position and the main features of the Statement of Accounts, such as the balance sheet position, reserves levels and income and expenditure for the year. It also explained the changes which have been made to the format and contents of the Statement as a result of the implementation of International Financial Reporting Standards. A copy of this report is attached at **Appendix A**.

- 1.2 The Committee now needs to formally receive the Statement of Accounts for 2010/11 for scrutiny and approval. Accordingly a copy of the Statement is appended at **Appendix B** for your consideration.
- 1.3 The External Auditor appointed by the Audit Commission (the District Auditor) is required, according to the International Standard on Auditing 260 (ISA 260), to report to you on matters affecting governance via a governance report.
- 1.4 The purpose of the report is primarily to allow the auditor to bring to the attention of the Committee any material mis-statements in the accounts for 2010/11, which your officers have declined to amend and any significant material mis-statements in the accounts submitted for audit which have been amended, together with any material weaknesses in internal control or areas of uncertainty. The report also contains the auditor's opinion on the Council's arrangements for achieving Value for Money.

2. **Statement of Accounts 2010/11**

- 2.1 The Statement of Accounts now submitted to you has been audited by the Council's external auditor, the Audit Commission. As a result a small number of minor amendments have been agreed with the auditor and made to the Statement but it is substantially the same document as you considered in June. The Annual Governance Report sets out the amendments which have been made.
- 2.2 None of these agreed amendments change the amount of the negative variance on the General Fund Revenue Account (£87,019) reported to you in July.
- 2.3 There are no changes which are significant enough to alter the content of the previous report, apart from a small amendment to the split between long and short term investments of £0.124m, where long term increases by this amount and short term is reduced correspondingly. Accordingly, the previous report attached at Appendix A should continue to be referred to for an explanation of the main features of the 2010/11 Statement.
- 2.4 The Council's Annual Governance Statement, which you approved at your July meeting, will be incorporated in the Statement of Accounts. Whilst the Accounts and Audit Regulations 2011 no longer require this to be included in the Statement of Accounts, they require it to be published, so it appears most appropriate to continue to include it in the published Statement of Accounts. Please note that this has not been included in the Statement appended to this report, however, in order to save paper.
- 2.5 The Audit Certificate to be included in the Statement will be provided after this meeting, following receipt by the auditor of the agreed and signed Letter of Representation, subject to his final satisfaction with the accounts.

3. **Annual Governance Report**

- 3.1 The Governance Report, which contains a copy of the proposed Letter of Representation, is attached at **Appendix C**. The external auditor will present the report and attend your meeting, together with your officers, to answer any questions raised by the Committee.
- 3.2 As stated earlier, the agreed amendments to the accounts referred to in the Governance Report do not change the amount of the negative variance (budget compared to outturn), i.e. the bottom line, in relation to the General Fund Revenue Account from that previously reported to members in July.

3.3 The Governance Report refers to two suggested amendments which it is not proposed to make to the Statement of Accounts. The reasons for this stance are set out in the Letter of Representation contained in the Governance Report.

4. **General Fund Outturn**

4.1 When you considered the outturn position in July, you requested further information concerning significant areas where the negative variance reported to you in relation to income shortfalls had been offset, to arrive at the final negative variance of £87,019. Accordingly, the position is set out below.

4.2 To recap, the major income shortfalls were as shown in the following table:

	Variance
	£000s
Local Land Charges	210
Cremation Fees	59
Lancaster Buildings Rents	230
Planning Applications Fees	44
Car Parking Income	234
Markets Stalls Income	50
Total	827

4.3 These were offset as follows:

	Variance	
	£000s	£000s
Income Shortfalls, as previously reported		827
Allowance for Income Shortfall		-200
Other Adverse Variances		
Loss of Grant - LABGI	50	
Concessionary Fares - Payments to operators	77	
Salaries not capitalised	65	
Recruitment costs for Chief Executive	25	
	<hr/>	217
Offsetting Positive Variances		
Employees (no pay rise/unfilled vacancies)	-460	
Interest Payable	-74	
Building Control contribution to Partnership	-25	
Community Development - Contributions to external bodies	-43	
Guildhall - Running costs	-45	
Write-back of Provisions contributions	-147	
	<hr/>	-794
Other Minor Variances		37
		<hr/>
Out-Turn		87
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5. **Letter of Representation**

- 5.1 The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts. It has to be approved by your Committee and then signed by the Council's Section 151 Officer.
- 5.2 The proposed Letter of Representation is set out at **Appendix D**.
- 5.3 Members need to consider whether they agree that the 2 amendments suggested by the auditor are, in fact, not to be made for the reasons set out in the Letter before deciding to approve it.

6. **International Financial Reporting Standards (IFRS)**

- 6.1 As Members of the Committee will be aware from previous reports, this is the first Statement of Accounts which has been compiled in accordance with IFRS principles. This entailed a considerable amount of preparation work, including the restatement of the balance sheet as at 1 April 2009, and the restatement of the entire 2009/10 accounts to present the accounts in the required format and with the content adhering to IFRS principles.
- 6.2 Implementation of IFRS was one of the challenges/tasks included in the Financial Management Section service plan and was also a goal included in the Corporate Plan 2010/11 to 2012/13, under the priority heading of "Transforming our Council to achieve excellence". Now that the Statement of Accounts has been audited, with few amendments, and bearing in mind the positive comments contained in the auditor's Annual Governance Report, it can be seen that this implementation has been carried out successfully and the corporate and service plan goals have been achieved.
- 6.3 The IFRS Working Group which was set up to oversee the implementation process has accordingly been stood down.

7. **Equality Impact Assessment**

There are no equality issues arising from the report.

8. **Financial and Resource Implications**

- 8.1 The adverse variance on the General Fund Revenue Account of £87,019 has been met by a transfer from the Budget Support Fund.

9. **Previous Reports**

- 9.1 Report to Audit and Risk Committee 28 July 2011 "Draft Statement of Accounts 2010/11"; Reports to Audit and Risk Committee in relation to IFRS: 24 February 2009, 8 February 2010, 15 November 2010, 18 April 2011.

10. **List of Appendices**

Appendix A - Report to Audit and Risk Committee 28 July 2011
Appendix B - Statement of Accounts 2010/11
Appendix C - Governance Report 2010/11
Appendix D - Letter of Representation

11. **Background Papers**

Report to Audit and Risk Committee 28 July 2011 “Draft Statement of Accounts 2010/11”; Reports to Audit and Risk Committee in relation to IFRS: 24 February 2009, 8 February 2010, 15 November 2010, 18 April 2011; Governance Report 2010/11 produced by the External Auditor appointed by the Audit Commission; Letter of Representation 2010/11.