

**Meeting:**           **AUDIT COMMITTEE / STATEMENT  
OF ACCOUNTS COMMITTEE**

**Agenda Item:**

**3**

Portfolio Area:    Resources

**Date:**             **13 September 2011**

**EXTERNAL AUDITOR'S ANNUAL REPORT TO THOSE CHARGED WITH  
GOVERNANCE 2010/2011**

Author - Clare Fletcher/Paul Winrow           Ext No.  
2933

Contributors - Nick Taylor/Anita Thomas

Lead Officer - Clare Fletcher                   Ext No. 2933

Contact Officer - Clare Fletcher               Ext No. 2933

**1       PURPOSE**

- 1.1    To present the External Auditor's Annual Report for consideration and approval and the audited 2010/11 Financial Report including the Statement of Accounts.
- 1.2    **Reason for Urgency** - It is a legal requirement that the 2010/11 Financial Report including the Statement of Accounts is approved by Council (or a body delegated by Council) on or before the 30 September 2011.

**2       RECOMMENDATIONS**

**2.1    Audit Committee**

- 2.1.1   That the Audit Committee considers this report and submits any comments to the Statement of Accounts Committee.

**2.2    Statement of Accounts Committee**

- 2.2.1   That the Annual Report to those charged with Governance for 2010/11 be approved (Appendix A).
- 2.2    That the Council's Letter of Representation be approved (Appendix B).
- 2.3    That the Financial Report including the Statement of Accounts 2010/11 be approved (Appendix C).

**3       BACKGROUND**

- 3.1    This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's report (Appendix A) has been produced by the Council's External Auditors Grant Thornton. At the time the Auditor's report was written there were a number of finalisation procedures outstanding, these are listed on agenda page 12 (Appendix A). The Council's External Auditors will

provide any update at the Audit Committee meeting and if any of these issues lead to an amendment of the accounts, a final version will be supplied to Members when ready.

- 3.2** The Audit Committee approved a reporting change to the Accounts in March 2011. Members agreed that the 2010/11 Statement of Accounts should be single entity accounts and not include any group accounts, the main reason being Stevenage Homes Limited accounts has no material impact on the Council's Group accounts. The 2009/10 impact of incorporating SHL's accounts into the Council's group accounts was to increase the Income and Expenditure deficit by £111K or a percentage increase in deficit of 0.2% and to decrease the Group Net Worth (Balance Sheet) by £7,170 Million or a percentage increase in deficit of 1.2%.
- 3.3** This is the first year the Council has been required to publish accounts compliant with International Reporting standards (IFRS) and Members were offered training in September to aid their understanding of the new format.
- 3.4** As a result of the changes to the Accounts and Audit regulations this committee no longer receives and approves a draft set of accounts by the 30 June. The revised requirement under these regulations is for the Audit Committee and Council, (or a Committee delegated this function by Council – in this instance the Statement of Accounts Committee), to consider and approve the accounts after they have been audited. This was reported to the Audit committee in February 2011.
- 3.5** As a result of the changes to the Account and Audit Regulations, a 2010/11 4<sup>th</sup> Quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive in July (2011). This report showed that the General Fund had an under spend of £711,488 of which £244,870 related to carry forward requests. The HRA had an under spend of £260,023 of which £8,000 related to carry forwards.
- 3.6** The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix B).

## **4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS**

### **4.1 Statement of Accounts**

- 4.1.1 The Statement of Accounts is Appendix C to this report. The accounts are shown in IFRS format which is different to that previously seen by Members. As a result of the changes a number of policy updates have been necessary and these are summarised in Appendix D to this report. The change to IFRS format has meant the accounts for 2010/11 have been restated together with the 1 April 2009 Balance Sheet.

#### **Balance Sheet**

- 4.1.2 The Council's Balance Sheet as at the 31 March 2011 showed a net worth of £532.5 Million, a decrease of £57.1 Million over the restated Balance Sheet as at 31 March 2010. The decrease in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves.

## Useable Reserves

4.1.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. The Council's useable reserves increased by £1.84Million to £12.158Million as at 31 March 2011. The main reason was the movement in revenue reserves which increased by £2.229Million, this was partly due to the reported under spends against budget on the General Fund at year end, (£711K) and an increase in the budgeted under spend on the HRA (£260K). Table one below details the movement in useable reserves.

**Table One- Useable Reserve Movement 2010/11**

	Balance at 31 March 2010 £'000	Increase/ Decrease in Year £'000	Balance at 31 March 2011 £'000
<b>Revenue Reserves:</b>			
General Fund Balance	(1,954)	(767)	(2,721)
Earmarked General Fund Reserves	(1,179)	(206)	(1,385)
Housing Revenue Account	(2,429)	(1,256)	(3,685)
<b>Total Revenue Reserves</b>	<b>(5,562)</b>	<b>(2,229)</b>	<b>(7,791)</b>
<b>Capital Reserves:</b>			
Major repairs reserve	0	(414)	(414)
Capital Receipts Reserve	(1,094)	+892	(202)
Government Capital Grants Unapplied	(3,658)	(93)	(3,751)
<b>Total Capital Reserves</b>	<b>(4,752)</b>	<b>+385</b>	<b>(4,367)</b>
<b>TOTAL REVENUE AND CAPITAL RESERVES</b>	<b>(10,314)</b>	<b>(1,844)</b>	<b>(12,158)</b>

(income = (/) reduction in income = +)

## Unuseable Reserves

4.1.4 Non useable or unuseable reserves are non cash reserves and include (but not exhaustive) the value of:

- Gains and losses from changes to the value of the Council's assets (Revaluation reserve).
- Timing differences between the purchase and use/or consumption of fixed assets (Capital Adjustment Account).
- The calculated liability owed by the Council at the Balance Sheet date for staff pensions (Pension Reserve).
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance sheet date. (Accumulated Absences Account).
- The difference between recognition of council tax income in the Income and

Expenditure Statement as it falls due from council tax payers, compare with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund, (completed at budget setting).

4.1.5 The Council's unuseable reserves decreased by £58.938Million to £520.353Million as at 31 March 2011. One of the main reason for the decrease in reserves was a reduction in the Councils non-current asset value, (formerly known as fixed assets) by £77.04Million. In 2011/12 a total of £78.4Million was written off in revaluation losses on Property, Plant and Equipment, most of this related to the Council's housing stock valuation. The 2010/11 revaluation of the housing stock was significantly lower than the valuation for 2009/10, this was because of a regulation change in the Existing Use Value – Social Housing (EUV-SH). This measure is used to value the housing stock and is a percentage of the vacant possession value. The 2009/10 calculation was based on 46% of the vacant possession value compared to 39% used for the 2010/11 accounts.

4.1.6 Included within unuseable reserves is the Council's pension reserve (deficit), the deficit as the 31 March 2011 had reduced by £29.1Million, compared to 31 March 2010. This is principally due to the financial assumptions at 31 March 2011 being more favourable than they at 31 March 2010, and pension increases linked to (lower) consumer Prices Index (CPI) rather than Retail Price Index (RPI) from June 2010.

4.1.7 A summary of the movement in unuseable reserves is shown in Table two below.

**Table Two- Unuseable Reserve Movement 2010/11**

	Balance at 31 March 2010	Increase/ Decrease in Year	Balance at 31 March 2011
	£'000	£'000	£'000
Deferred capital receipt reserve	(280)	+8	(272)
Collection Fund Adjustment Account	(204)	+116	(88)
Accumulated Absences Account	360	(42)	318
Revaluation Reserve	(34,439)	+7,191	(27,248)
Capital Adjustment Account	(609,476)	80,783	(528,694)
Pensions Reserve	64,748	(29,117)	35,631
	<b>(579,291)</b>	<b>58,938</b>	<b>(520,353)</b>

*(income = (/) reduction in income = +)*

## 4.2 External Auditors Conclusions

4.2.1 As the Council's appointed Auditor, Grant Thornton is required to review and report on the Council's financial statements and provide a value for money conclusion which is shown in Appendix A.

4.2.2 At the time the time of writing the report, no objections were received by electors to the 2010/11 accounts, (Appendix A, agenda page 15 to the External Auditors report).

4.2.3 There remained a number of outstanding items which had not been completed at the time of writing the report, (see Appendix A Status of the audit, agenda page 12). These included any changes to the pension liability as a result of the pension fund audit at the County Council.

4.2.3 There were no material misstatements found in the accounts as part of the audit. On agenda page 25 of Appendix A, (Section B audit Adjustments) Grant Thornton list the adjustments made as part of the audit. These were

- Arrears for Housing Rents and the Receipts in Advance were incorrectly stated by £188K, this was adjusted as part of the Audit.
- Adjustment as a result of clarification on the treatment of revaluation losses (deducted from the revaluation Reserve). As a result of the audit, £5.311Million was included below the deficit on provision of services in the Comprehensive Income and Expenditure Account, this change was as a result of the introduction of IFRS

4.2.4 There was one unprocessed adjustment which arose as part of the audit. The Council's finance officers chose to treat the holiday pay account as a provision. Grant Thornton suggested this should be treated as a creditor, the wording in the Code of Practice uses the word 'provision' and the Head of Finance concluded that this was in line with the Council's treatment of the costs. The Head of Finance will review the wording in the Code of Practice for 2011/12 to see if this is clarified and requires a change in accounting treatment for the 2011/12 accounts.

4.2.5 As a result of the Audit there are no recommendations from Grant Thornton in relation to the Statement of Accounts. There may be recommendations as a result of the Finance Resilience Report to be presented to the November Audit Committee.

## **5 IMPLICATIONS**

### **5.1 Financial Implications**

The updated Accounts for 2010/11 are financial in nature. As this document is related, the financial implications are contained therein.

### **5.2 Legal Implications**

This report is presented in accordance with the Accounts and Audit Regulations 2011.

## **BACKGROUND PAPERS**

Statement of Accounts 2010/11

4<sup>th</sup> Quarter General Fund and HRA report

## **APPENDICES**

Appendix A - Annual Report to those Charged with Governance

Appendix B - Letter of Representation

Appendix C - Updated Statement of Accounts 2010/11

Appendix D – Policy Changes as a result of IFRS implementation