

Meeting: **Audit Committee**

Agenda Item: 3

Portfolio Area: Resources

Date: **24 September 2012**

STATEMENT OF ACCOUNTS 2011/12 AND EXTERNAL AUDITOR'S ANNUAL REPORT FOR THOSE CHARGED WITH GOVERNANCE

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1 PURPOSE

- 1.1** To present the External Auditor's Annual Report for consideration and approval and the audited 2011/12 Financial Report including the Statement of Accounts.

2 RECOMMENDATIONS

- 2.1** That the Annual Report to those charged with Governance for 2011/12 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 2011/12 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 no outstanding items in relation to the Financial Report or Statement of Accounts.
- 3.2** This is the second year the council has been required to publish accounts compliant with International Reporting Standards (IFRS).
- 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), to consider and approve the accounts before 30th September 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 2011/12 4th Quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive in July (2012). That report showed that the General Fund had an under spend of £560,613 of which £220,740 related to carry forward requests. The HRA had an under spend of £1,057,131 of which £147,300 related to carry forwards. Following the external audit the outturn positions for the General Fund and HRA remains unchanged.
- 3.6** This was the first year of adoption of a new accounting standard which saw the recognition of heritage assets owned by the council. The accounting policy is attached as Appendix D.
- 3.7** Members were offered training prior to this committee to aid their understanding of the Statement of Accounts and the implications of the new standard.
- 3.8** 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.

Balance Sheet

- 4.1.2 The Council's Balance Sheet as at the 31 March 2012 showed a net worth of £321.0 Million, a decrease of £211.5 Million over the restated Balance Sheet as at 31 March 2011. 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 £1.21Million to £13.368 Million as at 31 March 2012. The main reason was the movement in revenue reserves which increased by £2.229Million, this was partly due to the under spends against budget on the General Fund reported during the year, and an increase in the budgeted under spend on the HRA (£1.057Million) which included the return of SHL company balances of £766K.
- 4.1.4 Useable capital reserves decreased by £1.78million as capital receipts and government capital grants were used to fund capital projects in 2011/12.
- 4.1.5 Table one below details the movement in useable reserves.

	Balance at 31 March 2011 £'000	Increase/ Decrease in Year £'000	Balance at 31 March 2012 £'000
Revenue Reserves:			
General Fund Balance	(2,721)	(1,081)	(3,802)
Earmarked General Fund Reserves	(1,385)	172	(1,213)
Housing Revenue Account	(3,685)	(2,081)	(5,766)
Total Revenue Reserves	(7,791)	(2,990)	(10,781)
Capital Reserves:			
Major repairs reserve	(414)	348	(66)
Capital Receipts Reserve	(202)	197	(5)
Government Capital Grants Unapplied	(3,751)	1,235	(2,516)
Total Capital Reserves	(4,367)	1,780	(2,587)
TOTAL REVENUE AND CAPITAL RESERVES	(12,158)	(1,210)	(13,368)

(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 shown in the Revaluation Reserve.
- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the Capital Adjustment Account.
- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the 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 shown in the 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 £212.73Million to £307.62Million as at 31 March 2012. One of the main reason for the decrease in reserves was a reduction in the Councils non-current asset value by £199.36Million, of which £199.91Million related to the payment to the government for self financing settlement on the 28 March 2012.

4.1.6 Included within unuseable reserves is the council's pension reserve (deficit). On the transfer of SHL staff back to the council the council acquired a pension liability of £20.35Million and assets of £17.48Million, a net deficit of £2.87Million. This, together with financial assumptions at 31 March 2012 being less favourable than at 31 March 2011, has resulted in the pension deficit increasing by £13.64Million compared to 31 March 2011.

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

	Balance at 31 March 2011	Increase/ Decrease in Year	Balance at 31 March 2012
	£'000	£'000	£'000
Revaluation Reserve	(27,248)	(335)	(27,583)
Capital Adjustment Account	(528,693)	199,361	(329,332)
Deferred capital receipt reserve	(272)	24	(248)
Pensions Reserve	35,631	13,639	49,270
Collection Fund Adjustment Account	(88)	23	(65)
Accumulated Absences Account	317	20	337
	(520,353)	212,732	(307,621)

(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 2011/12 accounts.

4.2.3 There were no outstanding items at the time of writing the report.

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 3 Audit Adjustments) Grant Thornton list the adjustments made as part of the audit. These were

<p>Reclassification: An adjustment was made to correct debtors and creditors in respect of the precept authority's share of the collection fund.</p>
<p>Reclassification: An adjustment was made to write off a double counted HRA plant and equipment as a de-recognition rather than as a revaluation adjustment.</p>
<p>Disclosure: There were a number of minor presentational changes that arose during the course of the audit that have been made to the financial statements.</p>

4.2.4 There were no unadjusted misstatements.

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 2011/12 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 2011/12

4th Quarter General Fund and HRA report

6.0 APPENDICES

Appendix A - Annual Report to those Charged with Governance

Appendix B - Letter of Representation

Appendix C - Updated Statement of Accounts 2011/12

Appendix D – Policy Changes as a result of adopting new reporting standard relating to heritage assets.