

AUDIT AND GOVERNANCE COMMITTEE

29 June 2010

STATEMENT OF ACCOUNTS 2009/2010 (Subject to Audit)

Report of the Director of Financial Resources

1. Purpose of the Report

- 1.1 To present the Statement of Accounts for the financial year 2009/2010 to the Committee for approval, subject to audit.

2. Description of Decision

- 2.1 The Committee is recommended to approve the Statement of Accounts for the financial year ended 2009/2010, subject to audit.

3. Background

- 3.1 The Accounts and Audit Regulations 2003 provided for the progressive earlier production of the accounts from 2003/2004 onwards, such that all accounts produced from 2005/2006 onwards would have to be approved by 30th June and audited accounts would have to be approved by 30th September of each year. The phased timetable set out in the Regulations was as follows:

| Year | Approval | Publication |
|-------------|-------------------------------|----------------------------------|
| 2003/2004 | 31 st August, 2004 | 30 th November, 2004 |
| 2004/2005 | 31 st July, 2005 | 31 st October, 2005 |
| 2005/2006 | 30 th June, 2006 | 30 th September, 2006 |

- 3.2 One of the drivers for the earlier closure of accounts was the need to meet central government's Whole of Government Accounts (WGA) requirements, which are intended to enable to publish to proper accounting standards, the whole of government accounts, each year in a timely fashion. The WGA approach is based on UK Generally Accepted Accounting Practices (GAAP) and from 2006/2007 the government was able to provide a true and fair view of the Government's financial performance for audit for the first time. The aim of WGA is not only to provide increased transparency and accountability to Parliament but also to provide more consistent and better quality financial information to help underpin funding and investment decisions at both local and national levels.
- 3.3 The Council reviewed its arrangements for approving the Statement of Accounts in line with guidance issued by CIPFA and, as a result, in May 2006, established the Audit and Governance Committee. This Committee replaced the Accounts Committee and the audit committee role previously undertaken by the Policy and Co-ordination Review Committee. The role of the Audit and Governance Committee is therefore not only to approve the Statement of Accounts but to receive reports and reviews on areas such as risk management, the wider internal control environment, to consider both internal and external audit plans and annual reports and more recently to

scrutinise and review the Treasury Management function and performance.

- 3.4 The Financial Management Division of the Financial Resources Department has actively sought to improve the arrangements for producing the accounts year on year by bringing forward the timetable each year. As a consequence, the Accounts were presented to Committee in August for both 2002/2003 and 2003/2004, July for 2004/2005 and June for 2005/2006 to 2008/2009 and now for 2009/2010.
- 3.5 The Statement of Accounts for all years has been presented to Committee within the required statutory deadline. Final accounts are reported to this Committee before the end of June, subject to audit, and after audit, including the auditor's opinion by the end of September.

4. Statement of Accounts 2009/2010 - Regulations

- 4.1 The Accounts and Audit Regulations 2003 provide that all adjustments to the Statement of Accounts can only be made with the permission of the external auditor. This was, in practice, the case in the past. When the external audit has been completed and the external auditor feels that highlighting any adjustments would strengthen internal control these will be reported to this Committee.
- 4.2 The Accounts and Audit Regulations 2003 also require the Statement of Accounts to be approved and, in the context of this Council's agreed arrangements, that the Chairman signs the Statement of Accounts on behalf of the Committee.
- 4.3 In addition, the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (England) (Amendment) Regulations 2006, which came into force on 1st April 2006, introduced two further requirements to be met by those charged with governance. These are in respect of strengthening the system of internal control by introducing a requirement to review the effectiveness of internal audit and also to review the effectiveness of the system of internal control, (already previously reported to this Committee on 28th May 2010).
- 4.4 The Statement of Accounts is attached as Appendix 1 for Committee approval, but, as indicated, it is still subject to audit.
- 4.5 Appendix 2 shows, for information, the key dates for the Statement of Accounts for 2009/2010 in accordance with the regulations.
- 4.6 The final Statement of Accounts will be published following the conclusion of the audit and will include a signed audit certificate. The audited accounts must be approved before 30th September of each year.

5 Statement of Recommended Practice (SORP) 2009 - Changes

- 5.1 The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2009 (SORP) has introduced some significant changes to the accounting requirements for the 2009/2010 Statement of Accounts. Local authority accounts which are now UK GAAP compliant, are to converge with the accounting requirements of International Financial Reporting Standards (IFRS) from 1st April 2010. The accounts for 2010/2011 must be IFRS compliant and as reported regularly to this Committee over the past year, the Council is making good progress towards achieving this requirement. The main changes to the last ever SORP, which is to be replaced by iFREM (IFRS-based Financial Reporting Manual), has brought in some

limited changes to help with this transition. The main changes which are very complex in accounting terms are set out in the Statement of Accounts on pages 12 to 14 of Appendix 1 for information.

5.2 The main changes in summary are as follows:

- The accounting requirements for **Private Finance Initiatives** (PFI) and similar contracts are to be based on IFRS - IFRIC12 'Service Concession Arrangements' which replaces UK accounting standard FRS5. This applies to all such schemes in place on 1st April 2009 and those in existence on 31st March 2009. It is expected that PFI schemes used to deliver PFI services, which are currently 'off Balance Sheet', will generally need to be recognised on local authorities' Balance Sheets along with a liability for the financing provided by the PFI operator. Government regulations have been introduced to ensure that any impact on authorities' funding positions because of adoption of the required accounting changes are neutral and do not affect the Council Tax payer. The Council has 2 such schemes (Sandhill View School and Community Learning Centre and Street Lighting and Road Signs contracts). The value of the assets used in each contract will now be included in the Council's Balance Sheet as if the Council owned these assets and all other accounting implications are complied with, in accordance with IFRIC12;
- The SORP no longer applies to **larger parish and community councils** in England and Wales from 2009/2010;
- Technical changes have been introduced to the way Authorities now have to account for the **Council Tax income** they collect. The change is based on the rationale that the billing authority acts as agent to its major preceptors (County Council, Police and Fire Authorities) and that consequently the previous practice of including all Council Tax debtors on the billing authority's Balance Sheet was not consistent with UK GAAP. Put simply, the total debtors included on billing authority Balance Sheets did not recognise that a proportion 'belonged' to its precepting Authorities. The accounts must now reflect this position and requires adjustments in the billing Authority accounts and corresponding adjustments to the precepting Authorities' accounts so affected. The amendments apply to both the 2008/2009 and the 2009/2010 accounts and impact on all authorities.
- Technical changes have also been introduced to the way Authorities account for other types of local taxation. The practice of carrying **National Non Domestic Rate debtors** on billing Authorities' Balance Sheets has been changed as it was concluded that billing Authorities act as an agent of the government when collecting NNDR. The change required means that billing Authorities should not now recognise NNDR debtors in their Balance Sheet but instead should recognise a creditor (for cash collected from NNDR debtors not paid over to the government) or a debtor (for cash overpaid to the government) at the Balance Sheet date. This change only affects billing Authorities and as such the changes apply to this Council.
- Two minor amendments have been made to the previous SORP 2008 relating to:
Clarifies 4.32 of the SORP – 'that the revised **effective interest rate** should be used where the financial instrument whose expected cash flows or life has been revised is being accounted for under hedge accounting' – this has no effect on the Council
FRS21 Events after the Balance sheet date clarifies when **dividends** payable

should be recognised – again this has no impact on the Council’s accounts.

- Other matters include:

An amendment to 4.105 of the SORP that requires the portion of **long-term financial liabilities** due to be settled within 12 months after the Balance Sheet date should be presented as Current Liabilities (as opposed to Long Term Liabilities)

Five **disclosure notes** to the accounts have been removed by the SORP2009 these include

- section 137 expenditure
- expenditure on publicity
- the building control account
- business improvement district schemes
- income under Local Authorities Goods and Services Act

Clarification that in 4.3 of the SORP, local authorities should follow FRS2 and FRS9 when **accounting for investments** in subsidiaries, associates and joint ventures in their single entity accounts.

A change was made in the level of detail concerning disclosures of **officers’ remuneration** above a minimum level in bands. This requirement was rephrased to refer to the applicable regulations as the government at the time the SORP was completed had indicated that it intended to legislate to require local authorities to report more detailed disclosures of officers’ remuneration, particularly those earning above £150,000 or where they were regarded as ‘senior officers’. The subsequent detailed disclosure required by the government is set out on pages 13 and 14 of Appendix 1 for information.

The Council has made the necessary changes set out above where applicable.

- 5.3 The Statement of Accounts (Subject to Audit) and Accounting Policies of the Council for 2009/2010 fully comply with the Statement of Recommended Practice 2009, with any departures from the SORP being fully documented, including reasons for the departure, where appropriate, and are included within the Accounting Policies section of the Statement of Accounts.

6. Statement of Accounts 2009/2010 - Main Financial Issues

- 6.1 The main financial issues arising from the Statement of Accounts (Subject to Audit) 2009/2010 are included in the Director of Financial Resources’ Foreword to the Statement of Accounts. The points set out in the Foreword represent the main financial matters that members’ attention needs to be drawn to, that are included in the financial statements for 2009/2010 - (included in pages 6 to 18 of Appendix 1).

Background Papers

Statement of Accounts 2008/2009

Statement of Accounts 2009/2010 (Subject to Audit)

Statement of Recommended Practice (SORP) 2009

Code of Practice on Local Authority Accounting in the United Kingdom – 2009/2010
Accounts and Audit Regulations 2003

Accounts and Audit (Amendment) (England) Regulations 2006

Timetable for the Audit of the Statement of Accounts for 2009/2010

Statement of Accounts (Subject to Audit) - Approved 29 June 2010

Notice of Audit of Accounts - Advert to be placed in newspaper ('The Sunderland Echo') - 19 July 2010

Public Inspection Period (20 working days) - 2 August to 27 August 2010

Date for Exercise of Public Right to Inspect the Accounts - 31 August 2010

Audited Statement of Accounts - Approved on or before 30 September 2010

