

AUDIT AND GOVERNANCE COMMITTEE

30 June 2011

Accounts and Audit Regulations 2011

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

- 1.1 To update the Committee of the changes made by the Accounts and Audit Regulations 2011 and the implications for the Statement of Accounts 2010/2011 (subject to audit) which, as a result of the changes, do not require the Audit and Governance Committee to approve the Accounts until they have been audited.
- 1.2 To provide members with a copy of the Statement of Accounts 2010/2011 (subject to audit) which will be tabled at the meeting and also to provide a brief review of the main changes to the Accounts which now comply with International Financial Reporting Standards (IFRS) for the first time.
- 1.3 The intention is to familiarise the Committee with the new format of the Accounts at this stage, prior to the meeting scheduled for 22nd July. The July meeting will enable members to review the Accounts and raise any questions on the Statement of Accounts 2010/2011 (subject to audit) before the Accounts are formally approved at the Committee meeting in September once the audit has been completed in accordance with the new regulations.

2. Description of Decision

- 2.1 The Committee is recommended to note the changes arising from the changes to the Accounts and Audit Regulations 2011 and to receive the Statement of Accounts 2010/2011 (subject to audit).

3. Background

- 3.1 The Accounts and Audit Regulations 2003 provided for the progressive earlier production of the Accounts. From 2005/2006 onwards local authorities had to approve their Accounts subject to audit by 30th June and the audited accounts have to be approved by 30th September of each year. The Council has always complied with these regulations.
- 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 was 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 was 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 Accounts and Audit Regulations 2003 also provided 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.
- 3.4 The Regulations also required the Statement of Accounts to be approved and, in the context of this Council's agreed arrangements, the Chairman of this Committee signs the Statement of Accounts on behalf of the Council.
- 3.5 Minor changes were made to the regulations as amended in 2009 - the main change was that the accounts now presents 'a true and fair view' (rather than 'presents fairly') the financial position as this was more in keeping with UK GAAP which the accounts then reflected.

4. Accounts and Audit Regulations 2011 – Main changes

- 4.1 The Government consulted on changes to the existing Accounts and Audit Regulations and published in March 2011 the following changes to be applied for the 2010/2011 accounting year:
 - Revoked the Accounts and Audit Regulations 2003 as amended and consolidated these into the new Accounts and Audit Regulations 2011;
 - Simplified and clarified the requirements of the regulations and also separated out the regulations that apply to larger public bodies from those that apply to smaller public bodies (where gross income or expenditure (whichever is the higher) is lower than the new threshold limit of £6.5m – this limit was previously £1m) and thus brings public sector organisations in line with the limit applied to smaller companies under the Companies Act;
 - Current regulations required members to approve the Accounts subject to audit before 30th June but this was considered to be out of step with requirements in the private sector where the Board are made aware of the findings of the audit **before** they approve the Accounts. The change in the regulations means that the Accounts subject to audit do not now need to be approved by the Council although they must still approve the audited Accounts before 30th September of each year;
 - There is a new requirement for the Responsible Finance Officer to certify the presentation of the annual Accounts no later than 30th June

and must re-certify the Accounts before member approval is given in September;

- Passenger Transport Authorities now fall within the category of larger relevant bodies and must comply with the requirements to prepare a Statement of Accounts in accordance with the Code of Accounting Practice for Local Authorities;
- The penalties under Section 27 (4) of the Audit Commission Act 1988 which set out that contravention without reasonable excuse of a regulation in the Accounts and Audit Regulations was a criminal offence (as these have never been used) has been removed;
- Clarified the remuneration reporting requirements which also ensure consistency of reporting with other public sector bodies.

5. Statement of Accounts 2010/2011 (Subject to Audit)

5.1 The Statement of Accounts will be tabled at the meeting for information but, as indicated, are still subject to audit. A brief review of the Accounts will be made to show members the main changes to the accounts which are now IFRS compliant, as the previous years audited Accounts were produced under UK GAAP principles.

5.2 In accordance with the amended regulations, the Accounts (subject to audit) do not need to be approved by this Committee, but the Executive Director of Commercial and Corporate Services must certify the Accounts no later than 30th June.

5.3 There is to be an additional meeting of this Committee to be held on 22nd July 2011 to allow members to review and to raise any issues they may have with the Statement of Accounts 2010/2011 (subject to audit) prior to their approval in September. The intention however is to bring this process forward next year so that the Accounts can be made available at this meeting for future years.

5.4 Appendix 1 shows, for information, the key dates for the Statement of Accounts for 2010/2011 in accordance with the amended regulations.

5.5 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 still be approved by this Committee before 30th September of each year.

6. IFRS - Main Changes to the Financial Statements

6.1 The Code of Practice on Local Authority Accounting in the UK 2010 (based on International Financial Reporting Standards) has replaced the SORP, which required local authority accounts to be UK GAAP compliant. The accounts for 2010/2011 have been produced based on the new accounting requirements of International Financial Reporting Standards (IFRS) which apply from 1st April 2010. Members have been kept informed of progress towards IFRS

compliance through reports to this Committee over the past two years since work commenced on this requirement, with the Statement of Accounts 2010/2011 being the end product. The accounts for 2009/2010 have also been re-formatted on an IFRS basis so that there is an appropriate comparison to the 2010/2011 accounts.

- 6.2 The main changes to the financial statements will be set out in a handout to be provided at the meeting and these will be explained in more detail along with a copy of the Statement of Accounts 2010/2011 (Subject to Audit).

Background Papers

Statement of Recommended Practice (SORP) 2010

Code of Practice on Local Authority Accounting in the United Kingdom – 2010/2011

Accounts and Audit Regulations 2003

Accounts and Audit (Amendment) (England) Regulations 2006

Accounts and Audit (Amendment) (England) Regulations 2009

Accounts and Audit Regulations 2011

Appendix 1

Timetable for the Audit of the Statement of Accounts for 2010/2011

Statement of Accounts (Subject to Audit) – certified by the Responsible Finance Officer on or
before 30th June 2011

Notification of the Audit of Accounts - Advert to be placed in newspaper ('The Sunderland
Echo') - 18th July 2011

Public Inspection Period (20 working days) - 1st August to 26th August 2011

Date for Exercise of Public Right to Inspect the Accounts - 30th August 2011

Audited Statement of Accounts - Approved on or before 30th September 2011

