

Report of the Cabinet Member for Corporate Services

## **Annual Financial Report Update 2012/13**

### **Summary**

1. The purpose of the report is to update Members on the approach being taken for the Annual Financial Report (Statement of Accounts) for 2012/13 and also responds to the comments made in the Annual Governance Report (AGR).
2. The AGR was prepared by the external auditors - Audit Commission – at the end of the 2011/12 Annual Financial Report process in response to the Final Accounts and was reported to the Audit & Governance Committee on 27 September 2012.
3. In 2011/12 the AGR referred to future requirements to be adopted for the Council's Fixed Asset Register, specific accounting treatment in relation to cash and bank and the date schools balances are reconciled to. These three areas are reviewed in the body of the report, along with other updates.

### **Background**

4. Preparation of the Council's Annual Financial report 2012/13 has commenced with the publication of CIPFA's (Chartered Institute of Public Finance & Accountancy) code of practice on local authority accounting in the UK 2012/13 in November 2012. Only minor accounting changes have occurred in the code with comparison to last year.
5. The 'Code' has confirmed that changes to measure transport infrastructure assets on a depreciated replacement cost (DRC) basis rather than historic cost will be revisited by CIPFA following the consideration of the progress being made by local authorities preparing to account for infrastructure assets under this revised DRC valuation method. This method will provide for infrastructure assets on a 'valuation' basis potentially increasing the value of infrastructure assets held within the accounts rather than at historic cost basis.
6. The 2012/13 'Code' incorporates the new requirements for the Housing Revenue Accountant (HRA) following the new HRA self financing reform

introduced from 1 April 2012 but further guidance is awaited for the accounting treatment, anticipated to be included in an update 'Code' in early 2013.

7. In the AGR, the Audit Commission communicated to Audit & Governance Committee findings from their audit on matters that were significant to Audit Committee's oversight of the Council's financial reporting process. These included matters in relation to the Fixed Asset Register and Cash and Bank.
8. The Fixed Asset Register is currently being improved by moving it from a spreadsheet database to the CIPFA Asset Net software system. This data base will streamline the FAR process, improve efficiency and ensure that the required progress is made in implementing the financial reporting standard IAS 16 which covers the componentisation of assets. CYC is on target to componentise all assets over a 5 year period by 2014/15 and ensures assets which are revalued, acquired or enhanced in any one year are subjected to the componentisation rules unless an additional component is not material and does not change the amount of depreciation that would be charged to that asset.
9. With regards to Cash and Bank, the AGR 2011/12 noted two points. Firstly that Cash and Bank balances at year end included unallocated cash not processed through the finance ledger system after the year end. It recognises that this is an established accounting treatment at many local authorities, but does state that this treatment does overstate cash balances and understate debtors at year end. This will be reviewed for 2012/13 and the correct position to state cash balances and debtors will be recorded.
10. The second point in relation to Cash and Bank is that "Schools balances were reconciled at 23 March 2012 rather than 31 March 2012". In the minutes of Audit & Governance Committee on 27 September 2012 Members commented that 'in the future, schools' accounts should perhaps be reconciled on 31 March'. This has been considered but the preferred option is that for 2012/13 the schools bank accounts will again be reconciled a week early on 22 March 2013. It is necessary for the schools to close a week early at 22 March 2013 as it takes them a week to finalise their position and then the school holiday is from 29 March 13 to 15 April 2013. If the accounts were closed at 31 March 2013, then the school would not complete their final position until 19 April 2013 – this is 3 weeks after they would if they close a week early and would place considerable pressure on the close down timetable.

11. A review at the end of the financial year will be carried out to ensure that any material items that occur between 22 March 2013 and 31 March 2013 are included and consolidated into the accounts. In discussion with the external auditors, they understand the logistical difficulties explained above and have agreed in principle with the suggestion that as part of the closedown process the central finance team should carry out its own review to confirm that any material movements between 22 March 2013 and 31 March 2013 are reflected in the accounts. External audit will also address this by requesting bank letters for a sample of schools accounts in 2012/13, and then compare them to the bank reconciliation balance, to provide additional assurance about the year end.

### **Consultation**

12. The external auditors for 2012/13 are Mazars and the approaches taken to the Annual Financial Report for 2012/13 detailed in this report have been discussed with them. At this stage Mazars have provided a positive opinion but it should be noted that until the Annual Financial report is finalised and audited, the external auditor has the right to revise their judgement

### **Options**

13. The requirements for the accounting treatment of the Fixed Asset Register and the position of debtors and cash for the bank reconciliation are agreed by Council officers and the external auditors, there is only one option. There are 2 options regarding the reconciliation of school bank accounts, either (i) reconcile school bank accounts on 31 March 2013, thereby potentially causing a delay to the final accounts process by 3 weeks or (ii) reconcile the school bank accounts 1 week early 22 March 2013 to ensure the final accounts deadline of 30 June 2013 can be adhered to and ensure that a materiality check is carried out by CYC officers for school bank accounts between 22 March 13 and 31 March 2013.

### **Council Plan**

14. The Annual Financial Report provides a technical financial summary of the activities of the council and contributes the overall financial plan by providing financial information about the City of York Council (CYC) that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the Council. It also assists in providing the Council with a viable financial position in which to base its future budget projections

### **Implications**

15. The implications are

- Financial – financial information is included in the body of the report
- Human Resources - there are no human resource implications to this report.
- Equalities - there are no equality implications to this report.
- Legal - there are no legal implications to this report.
- Crime and Disorder - there are no crime and disorder implications to this report.
- Information Technology - there are no information technology implications to this report.
- Property –there are no property implications to this report.
- Other – there are no other implications to this report.

### **Risk Management**

16. Areas of risk identified throughout the Annual Financial Report process are monitored and managed on an ongoing basis to ensure the statutory deadline of 20 June 2013 is met.

### **Recommendations**

17. That the Audit & Governance Committee note that only minor changes are required in the 2012/13 Annual Financial report 2012/13 compared to last year and also note the accounting treatment for the Fixed Asset Register and Cash and Bank and the approach taken to the reconciliation of school bank accounts.

Reason: That those responsible for governance arrangements are updated and made aware as to the approach taken to the Annual Financial Report 2012/13, for their approval by 30 June 2013.

### **Contact Details**

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 Services

Report approved      ✓      Date | 12/12/12

**Specialist Implications Officer(s)** None

**Wards Affected:** *List wards or tick box to indicate all*      **All**      ✓

**For further information please contact the author of this report**

### **Background Working Papers**

AGR 2011/12