

Report of the Director of Customer and Business Support Services.

Statement of Accounts 2010/11

Summary

1. The draft pre-audit Statement of Accounts for 2010/11 were signed by the Chief Finance Officer (CFO) – Director of Customer & Business Support Services – on 30 June 2011. This is in accordance with the revised Accounts and Audit Regulations 2011.
2. In accordance with CIPFA it is good practice that authorities report the draft pre-audit Statement of Accounts to Members after they have been signed by the CFO. This will allow Members to review the draft pre-audit Statement of Accounts together with the Annual Governance Statement (AGS) before the audit of the Accounts and raise any points that may need to be addressed.

Background

3. The report sets out the background for the requirement of Members to review the draft pre-audit Statement of Accounts. The draft pre-audit Statement of Accounts is attached at Annex B.
4. To assist Members and readers in the understanding of the draft pre-audit Statement of Accounts a brief explanation and information on the constituent parts of the Statement of Accounts (in the order in which they are produced) are attached at Annex A. This, supplemented by the presentation given to Audit & Governance on Tuesday 19 July 2011, will enhance Members' understanding and facilitate robust scrutiny prior to review and then final approval of the Statement of Accounts in September 2011.
5. Following the authorisation of the Chief Finance officer on 30 June 2011 and the review of Members of Audit & Governance Committee on 28 July 2011 of the draft pre-audit Statement of Accounts, the accounts will be made available for public inspection on 1 August 2011 for 20 working days, with Monday 5 September August 2011 being the date on or after which local government electors for the area to which the accounts relate may exercise their rights to question the auditor

about the accounts. The Audit Commission expects to issue a report and opinion by the end of September 2011.

6. The pre-audit Statement of Accounts 2010/11 has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK. The pre-audit Statement of Accounts is produced in line with International Financial Reporting Standards (IFRS) which are accounting standards used across the world making Local Authorities' Accounts more comparable with the private sector and worldwide.
7. This year 2010/11 is the first year which the accounts have been produced under IFRS. Completing the transition to IFRS from UK Generally Accepted Accounting Practice (GAAP) has involved increased challenges in the preparation of the Statement of Accounts compared to previous years. The seven reports to Audit & Governance Committee over the last 18 months have updated the significant changes.
8. The conversion from UK GAAP to IFRS has meant that the 2009/10 Statement of Accounts were restated under IFRS – all four of the core statements which are the Comprehensive Income & Expenditure Statement, Movement in Reserve Statement, Balance Sheet and Cash flow Statement. In order to obtain an opening balance position for 2009/10 the balance sheet for 2008/09 has also been restated.
9. An overview of the main changes which have occurred in the transition are included in the table 1 below. This shows the technical nature of the requirements and the complex accounting treatment involved.

Main Changes	Significant IFRS changes
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the authority.
Salaries and Pensions	Untaken holiday pay and similar items e.g. flexi are accrued for at year end and a charge made in the accounts. In the past no charge occurred.
Government Grants and Contributions	Capital grants and contributions are now recognised as income when they are received, rather than being deferred and matched to expenditure. If grants hold a condition as described by the supplier of the grant then the grant is treated as a creditor / liability.

Property, Plant and Equipment (Fixed Assets)	<p>More emphasis on component accounting than under UK GAAP.</p> <p>Definitions of assets have changed, so assets have been re-categorised to new classifications.</p> <p>Accounting treatment has changed for revaluation of Investment properties and the costs of impairments are charged to the revaluation reserve.</p> <p>Revaluation losses from previous years are reversed against current revaluation gains.</p>
PFI (Private Finance Initiative)	<p>There is one Schools PFI scheme where the asset which is controlled by the authority at the end of the contract is now brought on to the balance sheet at inception in 2005/06 rather than at the end of the contract life.</p>
Leases	<p>90% 'test' to separate finance and operating leases removed.</p> <p>Property leases classified and accounted for as separate leases of land and buildings.</p> <p>Need to assess whether other arrangements contain the substance of a lease</p>
Financial Instruments	<p>None – IFRS is identical to UK GAAP. The changes to Financial Instruments have already been included in previous SOA under the correct IFRS regulation</p>

Table 1: Overview of Main Changes from UK GAAP to IFRS

10. A significant amount of work has been undertaken in 2010/11 to ensure that
- the changes to the accounts described above under IFRS and
 - the recommendations and improvements identified by the Audit Commission in their 2009/10 Final Accounts Memorandum Audit & Governance Report
- have been implemented as part of the 2010/11 Close of Accounts process.

Consultation

12. All services areas of the Authority have contributed to the pre-audit Statement of Accounts and working papers.

Options

13. That the Audit & Governance Committee reviews the pre-audit Statement of Accounts in accordance with CIPFA best practice for the financial year ended 31 March 2011 and also approves the final Statement of Accounts 2010/11 after the audit, prior to 30 September 2011 in accordance with the statutory requirement.

Corporate Priorities

14. The Statement of Accounts provides a technical financial summary of the activities of the council and assists in providing the Council with a viable financial position in which to base its future budget projections. It is a statutory requirement that the Statement of Accounts are approved by the Audit & Governance Committee after the audit by 30 September 2011.

Implications

15. The implications are
 - Financial - The Statement of Accounts show that for 2010/11 there is a provisional under spend of £369k (less carry forward requests approved by the Cabinet on 19th July). This position arises primarily as a result of continued stringent cost control methods exercised during the year which ensure the Council's financial standing has been maintained. The full details of the outturn position were reported in the Financial Outturn 2010/11 report presented to Cabinet on 19th July 2011. The level of General Reserves is some £7.3m, compared to a recommended minimum level of reserves of £5.9m. However, of this £7.3m, £1.027m has already been committed in 2011/12 budget leaving a revised total of £6.3m. Clearly there are significant financial challenges facing all public sector organisations and the need to maintain reserves will be essential throughout this period.
 - 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 Close of Accounts process are monitored and managed on an ongoing basis to ensure the statutory deadline is met. The risks identified in 2010/11 were
- Technical ability and capability of personnel following the financial restructure
 - Impact of the changes to the regulations under which the accounts were produced due to the conversion of the accounting regulations for all Local Authorities from UK Generally Accepted Accounting practice (GAAP) to International Financial Reporting Standards (IFRS).

Conclusion

17. The production and publication of the Statement of Accounts is a statutory requirement that provides Members and interested parties with the chance to see the full financial position of the Council.
18. Bringing the Statement of Accounts to Audit & Governance provides an opportunity for Member led debate and compliance with defined best practice. It is an important part of Member involvement in corporate governance that a full scrutiny is undertaken of the Council's Accounts.
19. It is intended that following a receipt of an unqualified opinion on the accounts from the District Auditor, that the finalised Statement of Accounts 2010/11 will be published and distributed to all Members and Chief Officers electronically. The District Auditor is required to give his opinion as part of the Annual Governance Report to be considered by Audit and Governance Committee no later than the 30th September 2011.

Recommendations

20. That the Audit & Governance Committee notes
(a) the draft pre-audit Statement of Accounts for the financial year ended 31 March 2011
(b) the annual governance statement
21. Reason: It is a statutory requirement that a committee of the Council or Full Council approves the Statement of Accounts for 2010/11 by 30 September 2011 and that prior to the final audit it is good practice for Members to review the pre-audit Statement of Accounts.

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Report approved Date 13/07/11
1

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

Statement of Accounts 2010/11
Supporting Working papers held by Finance Departments across the Council.
Code of Practice on Local Authority Accounting 2010/11
Code of Practice on Local Authority Accounting 2010/11b Guidance Notes

Annex A

A brief explanation on the constituent parts of the Statement of Accounts

Foreword

1. This is designed to help give readers an understanding of the accounts. It sets out a description of all the individual sections, gives an overview of the revenue and capital position in the year, identifies the position on the Council's borrowing powers and reserves and future issues that may influence how the Council is run. It also provides the opportunity to explain any changes in accounting policies that have been used in the preparation of the Accounts.

District Auditors' Report

2. This is the auditor's certificate on the accuracy or otherwise of the authority's accounts and is issued at the end of the audit process. York has never had a qualification to its audit certificate. This will be inserted into the Statement of Accounts for approval by Members of Audit & Governance Committee at the end of September every year.

Statement of Responsibilities

3. This is a simple statement that sets out the different legal responsibilities of the Council and the 'Section 151 Officer' / Chief Finance Officer (Director of Customer & Business Support services). It is where the certificate has to be signed by the Director of Resources to authorise the draft pre-audit Statement of Accounts on 30 June each year, that the accounts represent fairly the position of the Council.

Statement of Accounting Policies

4. This statement sets out all the policies that have been followed in preparation of the accounts. It also intended to demonstrate where, if at all, the policies followed by Council differ from either the best practice or the CIPFA guidelines.

Comprehensive Income and Expenditure Statement

5. The Income and Expenditure Statement shows the net cost of all the functions for which the Council is responsible. It compares the cost of service provision with the income raised by fees and charges, from specific Central Government grants and from the Collection Fund.

The surplus or deficit on this account represents the amount by which income is greater than or less than expenditure, where income and expenditure are measured using essentially the same accounting conventions that a large (but unlisted) company would use in preparing its audited annual financial statements.

6. This statement also attempts to analyse changes in the council's asset base due to:
 - Surplus or deficits on income and expenditure
 - The revaluation of the council's fixed assets
 - Changes in pension liabilities due to actuarial revaluationIn many instances these revaluations impact primarily on the council's balance sheet.

Movement in Reserves Statement

7. This account reconciles the amounts that must be taken into account when determining the Council Tax of the Council in accordance with statute and non-statutory proper practices and the sums included in the Income and Expenditure Account.

Balance Sheet

8. The balance sheet shows the overall financial position of the Council with external bodies by bringing together the year-end balances of all the Council's accounts. It shows the balances and reserves at the Council's disposal, the long-term indebtedness, the net current assets and summary information on the fixed assets held.

Cash Flow Statement

9. This statement provides a link between the Balance Sheet at the beginning of the year, the revenue accounts for the year and the Balance Sheet at the end of the year. It summarises on a subjective basis the expenditure and income of the Council for revenue and capital purposes.

Housing Revenue Account Income and Expenditure

10. This account summarises the income and expenditure of providing Council houses. There is a statutory requirement to keep this account separate from other Council activities.

Statement of Movement on the Housing Revenue Account Balance

11. This statement shows how the deficit on the Housing Revenue Account Income and Expenditure Account for the year reconciles to the surplus for the year on the Statutory Housing Revenue Accounts.

Collection Fund

12. This fund shows the transactions of the Council acting as Charging Authority in relation to Council Tax, Community Charge and Non-Domestic Rating in aid of local services and shows how much monies have been distributed to the Council, North Yorkshire Police Authority, North Yorkshire Fire and Rescue Authority, and parish councils.

Annual Governance Statement

13. The 2007 guidance also introduced the requirement on local authorities to prepare an Annual Governance Statement (AGS) instead of a SIC (for 2007/08, and future accounting years) In preparing the AGS, the Council must address the overall governance arrangements of the organisation rather than specifically the systems of internal control.
14. The Accounts and Audit Regulations 2003 introduced the requirement for each local authority to conduct a review of the effectiveness of its system of internal control and to publish a Statement on Internal Control (SIC) as part of the Annual Statement of Accounts. The Council first published a SIC in 2003/04. The SIC formed an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enabled the Council to formally report on governance related issues identified during the relevant accounting period. The SIC demonstrated openness and accountability to the public and other stakeholders, and provided a framework for improving the adequacy and effectiveness of corporate governance arrangements.
15. The Department for Communities and Local Government issued guidance in 2006 (Circular 03/2006) which gave the existing CIPFA/SOLACE Corporate Governance Framework document 'proper practice' status. CIPFA/SOLACE, in 2007, published an updated Framework document. The new document '*Delivering Good Governance in Local Government Framework*' sets out the core principles of governance which authorities are required to adopt.