

Report of the Cabinet Member for Corporate Services

Statement of Accounts 2011/12 – Annual Financial Report

Summary

1. The pre-audited Statement of Accounts in 2011/12 is part of the wider Annual Financial Report. This is a change in 2011/12 in accordance with the clarification received from CIPFA in the interpretation of Section 9 of the Audit Commission Act 1998. This states that the auditor must give an opinion on the Statement of Accounts and the information that auditors are expected to be able to determine as true & Fair. Therefore, this includes all aspects of the Annual Financial Report except the Explanatory Forward, Independent Auditor's Report and Annual Governance Statement (AGS).
2. The draft pre-audit Statement of Accounts for 2011/12 are authorised in the Statement of Responsibilities by the Chief Finance Officer (CFO), the clarification between the Annual Financial Report and the Statement of Accounts removes the risk that the responsible financial officer could be taken to have provided assurance that the AGS was true and fair. The CFO – Director of Customer & Business Support Services – signed the draft pre-audit Statement of Accounts for 2011/12 on 29 June 2012. This requirement 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 allows 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 Annual

Financial Report, which includes 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. The presentation provided to the Audit & Governance Committee today – Wednesday 25 July 2012 - will enhance Members' understanding of the Accounts and facilitate robust scrutiny prior to final review and approval of the Statement of Accounts in September 2012.
5. Following the authorisation of the Chief Finance officer on 29 June 2012 and the review of Members of Audit & Governance Committee on 25 July 2012 of the draft pre-audit Statement of Accounts, the accounts will be made available for public inspection on 3 August 2012 for 20 working days, with 30 August 2012 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 2012.
6. The pre-audit Statement of Accounts 2011/12 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 the accounting standards used across the world making Local Authorities' Accounts more comparable with the private sector and worldwide.
7. The main changes that have occurred to the Accounts in 2011/12 are detailed in the paragraphs below and include:
 - (i) the introduction of Heritage Assets,
 - (ii) service analysis in the Comprehensive Income and Expenditure Statement,
 - (iii) schools that have converted to Academy Status and
 - (iv) change in the reporting name from Statement of Accounts to Annual Financial Report.
8. There is now a new category of heritage assets included within non-current assets on the balance sheet. These are assets with historical, artistic, scientific, technological, geophysical or environmental qualities

held principally for their contribution to knowledge and culture rather than for any operational reasons. Some heritage assets (e.g. buildings) were previously categorised as property, plant & Equipment are now categorised specifically as heritage assets. Others (mainly museum collections and artwork) have been newly identified as assets following adoption of this standard. Following recategorisation as heritage assets, some buildings / structures such as war memorials and York Walls are carried at nil value, as there is no reliable way of valuing these and therefore no meaningful value which can be assigned to them. The carrying amounts for other heritage assets are based on insurance values.

9. The service analysis under Net Cost of Services in the Comprehensive Income and Expenditure Statement has been expanded, with the previous heading of cultural, environmental and planning services now being split into its three component parts. In addition, material items have been disclosed separately to provide a clearer understanding of the authority's financial performance. Three transactions have been included:
 - (i) In 2010/11 the impact on non-distributed costs of the change in the inflation measure for retirement benefits from RPI to CPI,
 - (ii) In 2010/11 the revaluation losses attributable to the revision of the DCLG's adjustment factors for social housing
 - (iii) In 2011/12 the self financing settlement payment to buy the HRA housing stock from the Governments HRA subsidy system.
10. There were 2 schools that have converted to Academy Status at 1 April 2012 – Manor CE School and Archbishop Holgate CE School. Both Schools were Voluntary Aided Schools meaning that the value of their assets (i.e. school building) were never included on the balance sheet and their reserves, which were included on the balance sheet, were written out.
11. The change in the reporting name from Statement of Accounts to Annual Financial Report is explained in paragraphs 1 and 2 of this report.
12. The preparation of the Statement of Accounts in 2011/12 gave consideration to the risk areas identified in paragraph 16 of this report under the Risk Management heading and also the recommendations identified by the Audit Commission in their 2010/11 Final Accounts Memorandum Audit & Governance Report.

Consultation

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

Options

14. 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 2012 and also approves the final Statement of Accounts 2011/12 after the audit, prior to 30 September 2012 in accordance with the statutory requirement.

Corporate Priorities

15. 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 2012.

Implications

16. The implications are
 - Financial – The Statement of Accounts show that for 2011/12 there is a provisional under spend of £349k. 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 2011/12 report presented to Cabinet on 17th July 2012. The level of General Reserves is some £6.4m, compared to a recommended minimum level of reserves of £6.1m. 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

17. 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 2011/12 and clarified in the Audit Commission's Audit Plan (presented to this Committee in June 2012) were
- The new requirement in the Code to adopt heritage Assets
 - The inherent risk of the Fixed asset Register valuation and accounting consolidation
 - The consolidation of the statement of Accounts relying on the use of spreadsheet, potentially resulting material mis-statements

Conclusion

18. 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.
19. 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.
20. It is intended that following a receipt of an unqualified opinion on the accounts from the District Auditor, that the finalised Statement of Accounts 2011/12 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 2012.

Recommendations

21. That the Audit & Governance Committee notes:
- (a) the draft pre-audit Statement of Accounts for the financial year ended 31 March 2012.
 - (b) the annual governance statement.
22. Reason: It is a statutory requirement that a committee of the Council or Full Council approves the Statement of Accounts for 2011/12 by 30 September 2012 and that prior to the final audit it is good practice for Members to review the pre-audit Statement of Accounts.

Contact Details

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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 2011/12
Supporting Working papers held by Finance Departments across the Council.
Code of Practice on Local Authority Accounting 2011/12
Code of Practice on Local Authority Accounting 2011/12 Guidance Notes

A brief explanation on the constituent parts of the Annual Financial Report

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.

Annual Governance Statement

3. 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.

Statement of Responsibilities

4. 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

5. 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**

6. 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.
7. 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

8. 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

9. 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

10. 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

11. 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

12. 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

13. 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.
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.