

Statement of Accounts 2006/07

Summary

- 1 This report sets out the changes that have been made to the Statement of Accounts approved at Council on 28 June 2007, the reasons for the changes and seeks recommendation for the revised Statement of Accounts to be referred to Urgency Committee for approval.
- 2 The report, and the Accounts, are being brought to Audit and Governance Committee so that there can be a review of the changes prior to submitting the revised Accounts to Urgency Committee for approval. There is a statutory requirement that the representative of the Audit Commission, the District Auditor, gives his opinion on the latest set of Accounts that have been approved by Members, and the District Auditor has to give his opinion before 30 September 2007.

Background

- 3 Members will recall that it is now a statutory requirement that the formal Statement of Accounts are approved by 30 June each year, and the audit completed by 30 September. They will recollect that for 2006/07 there were major changes in the way the Accounts had to be prepared and presented. Members will also recollect that they were advised that due to the magnitude of the changes involved it was possible that a revised Statement of Accounts may need to be presented for approval if major amendments were needed.

Reasons for Changes

- 4 One of the requirements of the changed presentation was that the Accounts for 2005/06 had to be re-cast into the new format. When the accounts were re-cast, an error was made on the transactions that were to be used as comparators for the Statement of Total Recognised Gains and Losses, i.e. an incorrect figure was used as the revaluation of fixed assets. This led to other transactions being placed in the wrong area of the accounts. Through correcting this there are consequent small changes made in the presentation of the 2006/07 figures too, mainly where the transactions for mortgage principal repayments and the movement on the major repairs reserve sit in the Accounts.
- 5 Since the Accounts were approved discussions have been held with the District Auditor about the value that some of the sheltered housing properties are held in

the accounts. These properties can either be held at a value determined by Existing Use Value (EUV) or Existing Use Value - Social Housing (EUV-SH). The latter means that the value should be discounted by a factor of 53%. Upon further consideration it has been agreed that two of the sites originally held at EUV should be changed to EUV-SH. The implications of changing this is to reduce the value of the assets in the balance sheet by £1.937m after changing the depreciation charged in the year. This is the equivalent of 0.5% of the total value of council dwellings.

- 6 A second amendment to the value of fixed assets relates to the treatment of the site used for the Hob Moor Private Finance Initiatives scheme (PFI). The transactions for these types of financing schemes are technically 'off-balance sheet' and the value of the building being used should be excluded from the Council's fixed assets. However, when the process of removing the former assets held and replacing them with the land value of the site of the new complex was undertaken, the depreciated replacement cost of the buildings was inadvertently included. This means that the value of the other land and buildings in the Accounts was overstated by £4.116m. This is the equivalent of 1.4% of the total value of other land and buildings.
- 7 Both of the above amendments have been made to the Fixed Assets value in the Balance Sheet (and mean a movement of £6.063m or 0.76% of the total value of fixed assets), with consequential amendments to the Fixed Asset Restatement Account and the Capital Financing Account in the Total Equity on the Balance Sheet as well as alterations to the Income and Expenditure Account, the Statement of Movement on General Fund Balance, the Statement of Total Recognised Gains and Losses, the Housing Revenue Account Income and Expenditure and the Statement of Movement on the Housing Revenue Account Balance and their respective notes.
- 8 A review of the analysis of revenue activity in the Cash Flow Statement identified that two adjustments were made against the wrong entries in the statement. The net effect of these adjustments is to increase the value of cash outflow by £1,412k and the value of cash inflow by £1,411k. The remaining £1k is a rounding adjustment needed to the value of capital activities cash outflow. The net cash (inflow)/outflow before financing remains unaltered.
- 9 A further adjustment on the Statement of Movement on the General Fund Balance that has been made at the request of the District Auditor. The original Accounts had an entry under the heading 'Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund balance for the year' relating to pensions costs in the value of £(5,061)k. This entry is fully compliant with the Code of Practice. However, the Practitioners Guide has an alternative presentation and the District Auditor has requested that we use the alternative presentation. There is no change in the total value of the transactions on the statement from this amendment.
- 10 A further change was discussed with the District Auditor. This was in relation to the location in the analysis of fixed assets (note 19 on page 48) of the remaining element of the Barbican, the auditorium. The District Auditor suggested that this

should be presented as a non-operational asset as it has been earmarked for sale. However, the auditorium is currently subject to a lease with a two-year tenancy in place, and will continue to be used as an auditorium, with a third party operating the site. The long-term provision of an auditorium on this site is still the subject of negotiations. As such the Head of Finance, as responsible financial officer, has determined that the current treatment will be retained and will be reviewed once the negotiations have been concluded.

- 11 Finally, it is a requirement of the Code of Practice that the Post Balance Sheet Event section on page 71 (note number 69) should be continually updated up to, and including, the time that the Accounts are formerly 'signed-off' by the District Auditor. They should also include a statement on the date that the Accounts were approved by the Council and the date that they are published. The opportunity has also been taken to correct some presentation and typographic issues.

Effect of the Changes

- 12 There is a level of materiality to be considered about changes to the Statement of Accounts. The Audit Commission would consider that any amendments where the cumulative effect is substantial are material, and at this level Member approval should be sought. However, if, in any year, amendments are needed that change the financial position of the Council the Director of Resources would bring a revised statement to Members.
- 13 Full details of all the changes made are shown in Annex 1 and a revised Statement of Accounts is attached as a separate document.

Consultation

- 14 The revised Statement of Accounts are being presented to this committee as part of the consultation process.

Options

- 15 There are no alternative options applicable to this paper.

Analysis

- 16 The analysis of the changes needed to the Statement of Accounts is included in Annex 1.

Corporate Priorities

- 17 When determining the CPA score for the Council consideration is given to whether or not the Statement of Accounts has both been approved by the Council and received its audit certificate within the statutory time-frames.

Implications

- 18 The implications are

- Financial - the changes as detailed in Annex 1 result in changes to the Balance Sheet (the revaluation of sheltered housing and the Hob Moor site 0.076% of the total value of fixed assets), with presentational changes for the cash flow. The implications from these changes are reflected in other statements in the Accounts and in the notes to the Statements. Also there are minor amendments to the notes to some of the statements, including correction of typographic errors. Although there are some large numbers involved in these amendments they do not affect the financial standing or viability of the Council as the changes are all about accounting entries in the Accounts - there are no changes that affect the financial surpluses of the Accounts, the value of the General Fund Balance or the value of the HRA Balance.
- 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

- 19 Failure to approve and sign off the revised Statement of Accounts will result in the Council receiving a 'qualification', that the accounts presented do not present fairly the financial position of the Council, from the District Auditor when he issues his statement to be incorporated in the published Accounts.

Recommendations

- 20 Members are asked to discuss the amendments set out in Annex 1 and recommend that Urgency Committee approve the revised Statement of Accounts for the financial year 2006/07

Reason: The revised Accounts have to be formally approved by Members before the District Auditor can give his opinion on them

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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 2006/07
Closure of Accounts files held in the City Finance Centre

Annexes

Annex 1 - Details of all the changes made to the Statement of Accounts