
Report to: Audit and Governance Committee **Date of Meeting:** 28 September 2011

Subject: Statement of Accounts 2010/11

Report of: Head of Corporate Finance & ICT

Wards Affected: All

Is this a Key Decision? No

Is it included in the Forward Plan? No

Exempt/Confidential No

Purpose/Summary

To present the final audited 2010/11 Statement of Accounts for consideration and approval. In addition, the proposed "Letter of Representation" letter from Sefton to PriceWaterhouseCoopers LLP (PwC) is attached for approval.

Recommendation(s)

The Audit and Governance Committee is asked to:

- i) Approve the 2010/11 Statement of Accounts;
- ii) Approve the Annual Governance Statement;
- iii) Note the comments of PriceWaterhouseCoopers LLP; and
- iv) Approve the Letter of Representation and Authorise the Chair and the Head of Corporate Finance and ICT to sign it on the Council's behalf.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy	√		

Reasons for the Recommendation:

The Council, or nominated Committee charged with responsibility for Governance, must approve the Statement of Accounts. The Audit and Governance Committee has been delegated with this responsibility and is required to approve the audited Accounts for 2010/11 by the 30 September 2011.

What will it cost and how will it be financed?

(A) Revenue Costs
None arising from this report.

(B) Capital Costs
None arising from this report.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	This report complies with legislation, particularly the requirements of the Accounts and Audit Regulations 2003 as amended in 2004, 2006 and 2011.	
Human Resources	None	
Equality		
1.	No Equality Implication	<input checked="" type="checkbox"/>
2.	Equality Implications identified and mitigated	<input type="checkbox"/>
3.	Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

N/A

What consultations have taken place on the proposals and when?

FD1019

Are there any other options available for consideration?

None.

Implementation Date for the Decision

28 September 2011

Contact Officer: Margaret Rawding
Tel: 0151 934 4082
Email: Margaret.rawding@sefton.gov.uk

Background Papers:

None.

1. Background

- 1.1 Members will recall that the Audit and Governance Committee considered and noted amendments to the Accounts and Audit regulations at its meeting of 29 June 2011. These amendments included a more streamlined requirement for the signing and approval of the Statement of Accounts where the Audit and Governance Committee is now only required to approve the accounts following the completion of the Audit.
- 1.2 PriceWaterhouseCoopers (PwC) have now completed the audit of the 2010/11 Statement of Accounts. Paragraph 3 highlights the main changes to the accounts. The report from PwC on the financial statements (including formal opinion on the accounts) can be found in Paragraph 5. This report also provides informal feedback on the work PwC undertook to assess Sefton's Value for Money.
- 1.3 As part of the formal process to approve the Accounts, the Committee is required to authorise Sefton's "Letter of Representation" to PwC. This basically acknowledges the Council's responsibilities in preparing the Accounts and confirms whether there have been any material changes to the financial circumstances contained in the Accounts that PwC should be made aware of. This is considered further in Paragraph 6.

2 The Content of the Statement of Accounts

- 2.1 There are a number of changes to the content and layout of the Statement of Accounts for 2010/11; this is highlighted further in paragraph 2.5 below.
- 2.2 The 2010/11 Statement of Accounts is an important document, which aims to provide clear information about the Authority's finances for the year and is intended to answer:
 - What the Authority's services cost for the year?
 - Where the money comes from to pay for these services?
 - What were the Authority's assets and liabilities at the year-end?
- 2.3 The Statement of Accounts (attached as **Annex A**) and the Executive Summary (attached as **Annex B**) are also important in:-
 - Demonstrating proper stewardship of public monies;
 - Providing evidence of the quality and robustness of the authority's financial systems and processes;
 - Indicating that current financial performance, monitoring and the Medium Term Financial Plan are integrated processes which will assist the Council in improving its financial standing;
 - Providing the key financial information, which will enable future plans and decisions to be made on the basis of known facts and available financial resources; and
 - Providing a key line of communication to stakeholders on the Council's current financial performance. The detailed accounts will be available online on Sefton's website, in hard copy in libraries and the Executive Summary circulated to all Council Members and other stakeholders.

2.4 The Statement includes an Explanatory Foreword, which focuses on the most significant matters reported in the Accounts. A brief explanation of each statement is also provided (highlighting what the statement is intended to show) to aid the understanding of the Accounts.

2.5 The 2010/11 Statement of Accounts are the first set of accounts to be produced under the International Financial Reporting Standards (IFRS) code. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. The main changes as a result of the introduction of IFRS are summarised below:

2.5.1 Format of the Statement of Accounts

The format of the financial statements is different under the code to that used previously. The code also introduces changes to a number of the notes to the accounts along with new notes for the 2010/11 financial year. The changes to the main financial statements can be demonstrated as below:

Previous Headings	IFRS Code Headings
Statement of Movement on the General Fund Balance	Movement in Reserves Statement
Income and Expenditure Account	Comprehensive Income and Expenditure Statement
Statement of Total Recognised Gains and Losses	
Balance Sheet	Balance Sheet
Cash Flow Statement	Cash Flow Statement
Notes to the Core Financial Statements	Notes to the Financial Statements

2.5.2 Short-Term Accumulating Compensated Absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay. Under the code, the cost of this is required to be recognised when employees render service that increases their entitlement for future compensated absences and an accrual is required for annual leave earned but not taken at 31 March each year. Prior to the introduction of IFRS, common practice amongst local authorities was not to accrue for these amounts.

2.5.3 Leases

Under the Code, the criteria used to determine whether a lease is classified as a finance lease or an operating lease, have changed. An assessment of all leased assets has been undertaken and, based on the Council's accounting policy, a number of assets have been reclassified as finance leases. This has resulted in these assets being brought onto the Council's balance sheet and depreciated over the life of the lease.

The Government has issued regulation and statutory guidance in relation to accounting for leases, where the annual charge to the General Fund will be unchanged for the 2010/11 financial year. However in future years a charge will be made to the General Fund for all new finance leases entered into from 1 January 2010 where the Authority acts as lessor (there were no new leases during 2010/11).

2.5.4 Service Concessions

Under the Code, where it is considered that a contract is a service concession, the assets included in the arrangement should be included on the Authority's Balance Sheet. Previously, assets included in the contract were deemed to be outside of the Council's control so were not included on its Balance Sheet. The Council has identified that its contract with Arvato Government Services (Sefton) Limited should be classified as a services concession. As a result the value of equipment such as PCs / servers are now accounted for on the Authority's Balance Sheet.

2.5.5 Non-Current Assets

Under the code, categorisation and valuation of Non-Current Assets has been amended. A new category of Assets Held for Sale has been introduced where Surplus Assets that meet certain criteria are included. In addition, the definition of investment properties has changed so some assets have been recategorised. Also, Surplus Assets not meeting the criteria of Assets Held for Sale are included at Existing Use Value which has led to large reductions in the valuation of the assets.

2.5.6 Capital Grants and Contributions

Under the code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a Government Grants and Contributions Deferred Account and recognised as income over the life of the assets which they were used to fund.

2.5.7 Cash and Cash Equivalents

Under the code, Cash Overdrawn is netted off any Cash in Hand and Short-Term Deposits. Previously, Cash Overdrawn was shown as a separate figure on the Balance Sheet.

2.5.8 Deferred Liabilities

Deferred Liabilities due to be paid within the following financial year have previously been included as Creditors. These are now shown as a separate line within Current Liabilities.

2.6 The presentational changes to the 2010/11 figures noted above have been reflected in the 2009/10 figures (and 2008/09 Balance Sheet) to provide comparability with the new format. The overall revenue position of the Council for 2009/10 remains unchanged.

2.7 The statutory declaration by the Head of Corporate Finance and ICT in the Statement, represents her approval of the Accounts. Following approval of the Statement of Accounts by the Audit and Governance Committee, the Chair is required to sign the Accounts along with the external auditor completing their statutory certifications in relation to his opinion on the financial statements.

2.8 As in last year's Statement of Accounts, the main accounting statements provide figures for Sefton Council and in the latter part of the Accounts with Sefton New Directions (SND) combined. SND own accounts are currently being audited to comply with the Companies Act. PricewaterhouseCoopers LLP have audited the Council's accounts in full knowledge of this; they have concluded that SND's figures are not material to the overall group position.

3 Annual Governance Statement

3.1 The "Annual Governance Statement" is required to be presented with the Statement of Accounts. The statement is included as section 10 of the Council's Accounts and needs to be formally accepted by this committee.

4 Significant Accounting Matters / Audit Changes

4.1 The PwC Report to those charged with Governance is attached at **Annex C** and gives details of the significant accounting matters to consider and the adjusted accounting issues identified as part of their audit work. These items are listed below and more details can be found on pages 8-11 of the PwC Report:

4.2 Significant accounting matters:

- One Vision Housing accounts receivable balance
- One Vision Housing legal claim;
- Sefton New Directions;
- Bad debt provision – Sundry accounts receivable and Council Tax

4.3 Audit changes:

- Accumulated absences reserve;
- Leases;
- Pension Liability;
- Legal claim provision.

5 PriceWaterhouseCoopers' Report to those charged with Governance

5.1 The report covers the audit of the Statement of Accounts and Value for Money work undertaken by PwC. Staff from PwC will be present at the meeting to provide a brief summary of the issues contained in the report and to answer any questions Members may have.

5.2 With regard to the Accounts issues, the report has not identified any matters that require reporting to this Committee. At the time of writing the report, PwC had a small number of items to conclude; however they anticipate that an unqualified opinion will be issued.

5.3 The report highlights that following the adoption of International Financial Reporting Standards (IFRS) for the first year, PwC have commented that the Council has presented for audit a good draft of IFRS compliant financial statements.

5.4 PwC have a responsibility to carry out sufficient and relevant work in order to conclude on whether the Council has put in place proper arrangements to secure

economy, efficiency and effectiveness in the use of resources. Unlike in previous years where a scored judgement is reached, PwC anticipate issuing an unqualified value for money conclusion which has been based on a local programme of audit work.

- 5.5 PwC's report also makes recommendations in relation to weaknesses identified in internal control systems. Officers have considered the recommendations and the report includes their response to each issue.

6 Letter of Representation

The Council is required to provide a letter of representation to the Auditor at the conclusion of the audit. This acknowledges the Council's responsibilities in preparing the Accounts and provides the assurance to PwC that no new information or decisions have been taken that would materially affect the Statement of Accounts for the year. Sefton's is attached at **Annex D**. No issues or decisions have been made/ need to be disclosed. The letter has to be signed by the Chair of the Audit and Governance Committee and the Head of Corporate Finance and ICT.