

EAST HERTS COUNCIL

AUDIT COMMITTEE – 12 JULY 2011

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND INTERNAL SUPPORT

DRAFT STATEMENT OF ACCOUNTS 2010/11

WARD(S) AFFECTED: None specific

Purpose/Summary of Report

- This report sets out changes, in line with new Accounts and Audit Regulations and amendments to the Council's Constitution, to the arrangements for Members to approve Council's annual Statement of Accounts. The report provides, for Members' information, a copy of the Council's (unaudited) Accounts for 2010/11 as approved by the S151 Officer.

RECOMMENDATION FOR AUDIT COMMITTEE :

(A)	that the production and authorisation (by the Section 151 Officer) of the Council's 2010/11 Accounts in line with statutory requirements be noted.
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1.0 Background

- 1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2011, which came into force on 31 March 2011, set out changes to the requirements for the production, approval and publication of a Council's annual Statement of Accounts.
- 1.2 The former (2003) Regulations required the approval (by a relevant body of Members) of the Council's Statement of Accounts by 30 June following the relevant accounting year with audited accounts to be published by 30 September of that year.
- 1.3 The new Regulations now require the Accounts to be signed by the Council's S151 officer by 30 June following the relevant accounting year and passed for audit before requesting approval by a relevant body of the Council (as defined within the Regulations) following audit and then published by 30 September. The S151 officer in signing the

accounts is required to certify that the accounts present “a true and fair view” of the financial position of the Council at the year end.

- 1.4 The change in requirements will mean that the relevant body (for this Council the Audit Committee following amendment of the Constitution) will have the benefit of receiving the External Auditor’s report on the accounts prior to Member approval.
- 1.5 In line with the new requirements the audited accounts will now be submitted to the committee, for its approval, at the meeting on 21 September 2011. Given that this new procedure would delay members consideration of the accounts the draft accounts are presented for information at this stage.
- 1.5 A separate report elsewhere on the agenda deals with requirements for the consideration and approval of the Council’s Annual Governance Statement, which is required to be included within the Council’s overall annual accounts.

2.0 Report

- 2.1 The Council’s Chief Finance Officer (S151 Officer) has statutory responsibility for the preparation of the Statement of Accounts. The Accounts, accounting policies and compliance with the 2010 Code of Practice on local authority accounting have been signed by the Council’s Director of Internal Services (as 151 Officer) for submission to Members. The Statement of Accounts was authorised for issue on 29 June 2011.
- 2.2 Although the new regulations do not require the accounts to be submitted to the Audit Committee at this stage in the process, officers consider that it is good practice in that the Committee can be assured that the accounts have been produced in line with the statutory requirements as well as affording the Committee an early opportunity of viewing and questioning the accounts.
- 2.3 The Statement of Accounts is attached at Essential Reference Paper “B” to the report.
- 2.4 In the wider interest of transparency and public accountability it is also intended that the accounts will be made available on the Council’s website but clearly marked as DRAFT and SUBJECT TO AUDIT. This will ensure an early opportunity for the public to consider the accounts prior to the appointed day for inspection of the accounts and supporting documents.

- 2.5 The Committee will be aware that the 2010/11 Accounts have been required to be produced for the first time in line with International Financial Reporting Standards (IFRS). The move to IFRS has required significant changes to both the format and presentation of the accounts including a complete restatement of prior year comparatives. Work has been ongoing on this “project” since April 2010.
- 2.6 As a result of the significant additional work, and new skills required in order to move to IFRS based accounts, the Council engaged Deloitte LLP to support the process. Arrangements have included appropriate staff training which will be invaluable in future years.
- 2.7 Regular liaison with the Council’s External Audit staff (Grant Thornton) has also taken place in order to assist the transition and discuss and agree the Council’s approach to key areas of change. A number of draft accounts (including the transitional balance sheet and 2009/10 restatements) together with draft policies and notes have been provided to Grant Thornton for their consideration during the process.
- 2.8 A report elsewhere on the agenda sets out Grant Thornton’s initial findings regarding the preparatory work and restatements. It is pleasing to note that no significant issues or concerns were identified.
- 2.9 It is intended to provide Members with a detailed accompanying report on the accounts at the September meeting when the Committee will be invited to formally approve the accounts. Members may, however, wish to be aware of the following key issues which have a significant impact upon this year’s accounts;
- The technical transition date for IFRS was 1 April 2009 which requires a “transitional balance sheet” to be prepared at this date. Together with the restated balance sheet at 31 March 2010 and the current year’s balance sheet the accounts present three balance sheets on this occasion.
 - Note 2 to the statements (pages 21 to 26) include reconciliations between the former (UK GAAP) Statements and the new IFRS basis. These cover both balance sheet (total net worth) and Comprehensive Income and Expenditure Statement conversions.
 - Asset revaluations continue to have a significant impact on the Comprehensive Income and Expenditure (CI&E) Statement.

Following the enhancement work to Hertford Theatre a revaluation of this asset has been undertaken. The accounting requirement for the basis of valuation to reflect a rental value (derived by reference to the underlying income stream) produces a significant reduction in value compared to the former depreciated replacement cost method. A revaluation adjustment of £3.91M is reflected in the CI&E Statement. Members should note that valuations will not necessarily represent the value of an asset to the organisation or its potential disposal value.

- The Committee will be aware that in the June 2010 budget statement the Government announced that from April 2011 public service pensions would be up-rated in line with the Consumer Price index(CPI) rather than the Retail Price Index (RPI). This change (in line with relevant accounting bulletins) has been treated within the accounts as a change in benefit. This has the effect of reducing the Council's pension liabilities at 31 March 2011 by some £9.7million. It is recognised in the Comprehensive Income & Expenditure Statement as a past service gain and shown as a non distributed cost within the net cost of services. This gain together with other favourable financial assumptions (compared to the March 2010 position) has resulted in an overall reduction in the Council's pension liabilities of £19.975 million.

2.10 It will be for Members and other readers to judge whether the new presentation aids understanding of the accounts (although in this transitional year the need to show reconciliations back to the March 2009 balance sheet means there is a lot of detail which will not be repeated going forward). The prominence now given to the movement on reserves, the detail in support of adjustments between Accounting Basis and Funding Basis and the notes on Resource Allocation Decisions may help understanding of why not every transaction in the accounts is relevant to setting the council tax. The volatility in the accounting for pensions where the year saw the deficit reduce by almost 50% remains an area where understanding the implications of the accounts will be of continuing difficulty.

2.11 Annual Governance Statement -

This Statement is required to be included as part of the Council's overall Statement of Accounts. A report (see agenda item xx) sets out the draft document for Members consideration.

3.0 Implications/Consultation

3.1 Information on any corporate issues and consultation associated with

this report can be found within Essential Reference Paper A (Page *)

Background Papers

Final Accounts Working Papers 2010/11

Contact Member: Councillor Mike Tindale, Executive Member for
Resources and Internal Support

Contact Officers: Alan Madin, Director of Internal Services - Ext 1401
Simon Chancellor, Head of Financial Support Services
Ext 2050

Report Author: Simon Chancellor, Head of Financial Support Services

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives <i>(delete as appropriate):</i>	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	Consultations have taken place with relevant Officers and external audit staff as part of the closure process.
Legal:	The statutory requirements are set out within the report.
Financial:	As set out within the report.
Human Resource:	There are no human resource implications.
Risk Management:	Any issues arising through the External Audit process will need to be addressed prior to Member approval of the accounts in September.