

RECOMMENDATIONS TO CABINET ON 20 SEPTEMBER 2011 FROM THE SPECIAL AUDIT AND RISK COMMITTEE MEETING ON 13 SEPTEMBER 2011

ARC58: **STATEMENT OF ACCOUNTS 2010/2011 REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260 (UK&1))**

The Executive Director, Finance and Resources presented a report that introduced the Statement of Accounts (SOA) 2010/2011 – essentially the Statement was the final accounts set out in a format which included the Council's balance sheet and associated notes. Within the full statement was an Annual Governance Statement which had been signed by the Leader and Chief Executive of the Council.

Members were advised that the report considered the report from the auditor on the audit for the accounts 2010/2011 – the International Auditing Standard (ISA 260). Although there were one or two issues to be resolved at the time of writing the report, the auditor anticipated issuing an unqualified audit opinion. The report pointed out the difficulties experienced this year which resulted from the pressures of preparing the accounts for IFRS. Working papers were not as good as previous years, the timetable was delayed on occasions and minor errors on casting and suchlike were in the draft documents.

The major difficulties were in dealing with the capital assets in terms of valuation and impairment. In this particular case the intention from the outset was for staff within accountancy to deal with the new accounting arrangements and learn from the experience rather than have a sub contractor come in to assist and then take the knowledge with them. This was an area that proved far more complex than was originally anticipated and lessons had been learned from the audit.

The final part of the report set out recommendations and responses from the review of the internal financial controls 2010/2011. There were no significant issues to note from the review.

The format of the Statement of Accounts was subject to prescription and was now presented in a new format having been prepared under the International Financial Reporting Standards (IFRS) which was in accordance with the relevant Audit and Account Regulations.

ISA 260

The Council's External Auditor presented the ISA 260 element of the report and explained to the Committee that under the Auditing Practices Board's International Auditing Standing (UK and Ireland) 260 (ISA (UK&I) 260) the External Auditors were required to report to those charged with governance on the significant findings from their audit before giving their audit opinion on the accounts of the Borough Council. Members' attention was drawn to the following sections of the report as set out below:

- Executive Summary – page 6. Those present were informed that the Statement in its new format now ran to over 100 pages, some 35 pages more than last year and it contained different notes and analysis.
- Identified audit risks from the Audit Plan – pages 7 to 9
- The matters remaining at the time of drafting the report – page 10, paragraph 14. It was noted that work was progressing well to address the remaining matters.
- Summary of Misstatements – page 18, point 2. The report also noted a number of uncorrected misstatements that were not considered to be material in terms of the values in the accounts, and if corrected at this stage would create changes to many other elements of the accounts. The External Auditor suggested that the Committee should consider a recommendation to Cabinet that they note the summary of uncorrected misstatements and determine whether changes should or should not be made to the accounts for those items.
- Capital Assets.
- Appendix 2 – Letter of representation and areas of concern.
Appendix 3 – Action plan to address issues raised.
- Annual Governance Statement presented as part of the Statement of Accounts to ensure that there were no inconsistencies. The External Auditor advised Members that there were no inconsistencies to report.
- Use of Resources – page 14, paragraph 52.
- Impact of absence of two senior accountancy officers resulting in additional external auditor's fee.

The Committee was invited to ask questions or make comments, a summary of which is set out below.

In response to questions from Councillor J Collop relating to paragraph 29 (The quality of the working papers provided for audit was not to an appropriate audit standard in some cases), the Council's External Auditor advised that this was due to a combination of facts such as the new IFRS Code of Practice requirements, the complexity of the work involved and the absence

of two accountancy staff had had an impact on the production of the required documents. Regarding the additional fees, the External Auditor explained that the exact figure was not available, but undertook to attend a future meeting of the Audit and Risk Committee to outline the reasons which justified the additional fees.

The Executive Director, Finance and Resources added that the two officers within the accountancy department were currently on maternity leave and one had left earlier than anticipated. A decision had been made not to employ a sub contractor as other authorities had done, but to keep the work in-house to maintain the knowledge and expertise of those involved with producing the required documents. He commented that this year had been difficult due to the complexities of the accounts being more than anticipated. A budget had been allocated to fund the additional audit fee. In conclusion, he informed Members that lessons had been learned with the preparation of the documents this year which would not be repeated in future years.

In response to questions from Councillor de Winton on why the format of presenting the accounts had been changed, the External Auditor explained that was a legislative change which required all local authorities to present the accounts in the new format. The Executive Director, Finance and Resources advised that the ISA 260 document was not a new one, the report had always been considered by the Audit and Risk Committee. It was the new requirements of the IFRS Code of Accounting Practice which had brought about the detail and complexities.

Following questions from Councillor Loveless relating to paragraph 28, bullet point 1, third paragraph relating to the different categories of valuation of the Council's assets, the External Auditor, Chief Accountant and Executive Director, Finance and Resources outlined the reasons as to why the External Auditor's would not expect a revaluation exercise to be undertaken on the value of community assets. However, Members were advised that the Council would undertake a review of its community assets during 2011/12 to verify the appropriateness of this revaluation and ensure that all community assets were valued consistently on the basis of historical cost.

The Chairman drew Members' attention to recommendation 3 of the report which was agreed.

Through the Chairman, the Executive Director, Finance and Resources suggested that an additional recommendation (4) be considered:

That Cabinet note the summary of uncorrected misstatements and recommend that no change be made to the accounts for those items.

On being put to the vote, the above recommendation was agreed by the Committee.

Statement of Accounts (SOA)

The Chairman explained that the Statement of Accounts would be presented by the Chief Accountant and Principal Accountant. This part of the meeting was open to all Councillors present for training purposes and they were invited to ask questions or comment.

The Chief Accountant explained that with the new requirements of the IFRS, the document now consisted of over 100 pages as it contained additional notes and analysis.

Members were advised that as part of the preparation of the accounts under the new IFRS format it had been necessary to restate certain figures and component parts of the Statement which had involved recalculating figures back to 2007/2008. This had proved to be extremely time consuming and like many other parts of the IFRS regulations the 'devil had been in the detail.' The auditor's report had outlined the difficulties experienced by Accountancy in preparing the Statement.

The Chief Accountant explained that she would present the following key areas:

- Movement in Reserves Statement.
- Comprehensive Income and Expenditure Statement.
- Balance Sheet.
- Cash Flow Statement.
- Collection Fund.

If, however, Members wished to receive further information or training of any specific area, they were invited to forward subjects to the Chairman or Democratic Services Officer. Information/training sessions could then be scheduled for the Committee.

Members were invited to comment on the key areas, a summary of which is set out below.

Movement in Reserves Statement

Following questions from Councillor Loveless on the function of unusable reserves within the authority, the Chief Accountant explained that this was a technical book entry and that the Council was not able to use those reserves to provide a service. This category of reserves included reserves that held unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold.

Comprehensive Income and Expenditure Statement

There were no questions from the Committee on the Comprehensive Income and Expenditure Statement.

Balance Sheet

There were no questions from the Committee on the Balance Sheet.

Cash Flow Statement

There were no questions from the Committee on the Cash Flow Statement.

Collection Fund

Members were reminded that the Borough Council had the responsibility for the operation of a Collection Fund. The Collection Fund dealt with payments of non-domestic rates, council tax, including parish precepts. The account paid out monies to Norfolk County Council, the Borough Council and Norfolk Police Authority in respect of precepts. It also paid a cost of collection allowance to the Borough Council for the collection of non-domestic rates and refunds of overpayments to council taxpayers and non-domestic ratepayers. Monies due from non-domestic ratepayers were paid into the Fund and then transferred into a National Pool. Any surplus or deficit on the Fund relating to the council tax was divided between the Borough and County Councils and Norfolk Policy Authority in the same proportion as their precepts on the Fund.

In response to a question from Councillor Loveless on how the surplus was divided up between authorities and why Parish Councils did not receive a share of the surplus, the Executive Director, Finance and Resources outlined the difficulties and costs involved relating to the holding of separate accounts for over 100 parishes within the Borough, and provided examples to the Committee.

Councillor J Collop asked if there was an increase in bad debts during the current economic climate how would this affect the Borough Council. The Executive Director, Finance and Resources advised that the Council had substantial bad debt provision set aside to deal with an increase should it occur.

Following a further question from Councillor J Collop on the effect on King's Lynn Special Expenses should bad debts increase, the Executive Director, Finance and Resources explained that there would be no difference as the Borough Council collected general council tax which was not specific to a particular area.

Councillor J Collop asked the Chairman for confirmation that the External Auditor would attend a future meeting to outline the reasons for the additional auditor's fee. In response, the Executive Director, Finance and Resources advised that the External Auditor would next attend the Committee to present the Audit Letter and at that meeting would also provide the information requested relating to the additional fees.

In conclusion, the Executive Director, Finance and Resources informed the Committee that the Statement of Accounts (SOA) was a complex document which was currently subject to ongoing quality checks up to the Council meeting on the 29 September 2011. It was therefore recommended that if changes were required to the SOA that authority was delegated to the Deputy Chief Executive and Executive Director, Finance and Resources, in consultation with the Leader of the Council, to authorise amendments. That, if necessary, an updated SOA be presented to Council with reconciliation to the current SOA.

The Chairman drew Members' attention to recommendations 1 and 2 as set out in the report, which were agreed.

RESOLVED: That Cabinet be advised that the Resources and Performance – Audit and Risk Committee supports the recommendations (1) to (3) set out in the Cabinet report, with an additional recommendation 4 as follows:

- 1) That Council approves the Statement of Accounts for 2010/2011.
- 2) That Cabinet approve the authority for any changes required to the Statement of Accounts is delegated to the Deputy Chief Executive, in consultation with the Leader of the Council, to authorise amendments and if necessary present an update Statement to Council.
- 3) That Cabinet notes the comments of the auditor in the ISA260.
- 4) That Cabinet note the summary of uncorrected misstatements and recommend that no change be made to the accounts for those items.