

<b>*PART 1 – PUBLIC DOCUMENT</b>	<b>AGENDA ITEM No.</b>  <h1 style="text-align: center;">14</h1>
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**TITLE OF REPORT: AUDITED STATEMENT OF ACCOUNTS 2010/11**

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

**1. PURPOSE OF REPORT**

1.1 The purpose of this report is to update Finance, Audit and Risk Committee on the audited Statement of Accounts for 2010/2011. The Annual Statement of Accounts for 2010/2011 is complete and enclosed with the report as Appendix A.

**2. FORWARD PLAN**

2.1 This Report does contain a recommendation on a key decision and was first included in the Forward Plan on 15 June 2011.

**3. BACKGROUND**

3.1 The Council is legally required to produce a statement of accounts detailing the financial activities for the financial year and overall financial position as at 31 March. The audited statement of accounts for the year 2010/2011 are set out in appendix A and consist of a number of statements. Much of the information in the document is of a technical nature which has been completed to be compliant with the 2010 Local Authority Accounting Code of Practice (the Code).

3.2 There is a statutory requirement that the Annual Statement of Accounts is prepared and certified by the 30 June and then published after an audit examination by the 30 September. The accounts were signed by the Strategic Director of Finance, Policy and Governance on the 29 June 2011. Regulation 10 of the Accounts and Audit Regulations 2003, states the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. The Finance, Audit & Risk Committee is delegated to sign off the statutory annual Statement of Accounts.

3.3 The Council's external auditors, Grant Thornton, arrived on the 4 July to start the accounts audit and their report (ISA 260) on the Accounts will be presented to Members at this meeting tonight.

**4. ISSUES**

4.1 The Strategic Director of Finance, Policy and Governance has signed the Statement of Responsibilities (page 1 of Appendix A) to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2011 and its income and expenditure for the year then ended.

4.2 As a result of discussion with Grant Thornton, during the audit of the accounts, a number of adjustments / amendments have been made to the un-audited version of

the accounts published on the 30 June. The key matters arising from the audit of the accounts are described in the ISA 260 report and the resulting key changes reflected in the accounts are listed in the following paragraph.

4.3 The key adjustments reflected in the financial statements can be summarised as follows:

- **A specific adjustment of £1.8million has been identified in relation to overvaluation of the Council's ownership of the Hitchin Town Hall asset.**  
As a result of this error the total value of long term assets recognised on the Balance Sheet at 31 March 2011 has reduced from £95.3million to £93.5million. Officers have committed to check the measurements and related data for a sample of other significantly sized council owned buildings to establish whether this error was a one-off issue. At the time of writing Officers were working on establishing the potential size of any further potential error in order to re-assure Members. A further update will be provided either in the final version of this report or verbally at the meeting. Further a structured accelerated programme of reviews will be established to commence in the new calendar year that will run into 2012/13. This is the only change required that is not a result of the implementation of International Financial Reporting Standards (IFRS) for the first time for these accounts.

- **Recognition of £400k Performance Reward Grant income from 'receipts in advance' following confirmation that all relevant conditions had been met.**

One of the key accounting changes this year from the new Code is the timing of when grant monies are recognised in the Comprehensive Income and Expenditure Account (I&E). Previously, unspent grant monies would have been held as a 'receipt in advance' or 'government grant deferred' on the Balance Sheet. It would then have been recognised as income in the I&E when the corresponding expenditure was incurred. The Code now requires grants to be recognised as income in the I&E account when all the conditions attached to the grant have been met. This could be before the expenditure is incurred. At the time of completing the statement of accounts Officers took the view there was a condition that had not been met and the PRG was held on the Balance Sheet as a receipt in advance. However, it has been found that the only 'condition' attached to the PRG is as follows:

"Capital grant paid to an authority under this determination may be used only for the purposes that a capital receipt may be used for in accordance with regulations made under section 11 of the Local Government Act 2003."

This is seen as a restriction rather than a condition in the Code and therefore all the grant should be recognised in the I&E account even though the expenditure has yet to be incurred. The capital element of the grant (£213k) is now held in the Capital Grants Unapplied account and the revenue element of the grant (£187k) is held in a new earmarked revenue reserve.

- **Presentational Changes**

A number of presentational changes have been made to ensure full compliance with the specific reporting requirements of the Code and IFRS. These include; a reclassification of the holiday pay accrual from current provisions to an accrual disclosed within 'Short term creditors'; corrections to the disclosed amounts of grants and contributions in note 18; reclassification of the £200k Churchgate development contributions from current to non-current debtors; disclosure amendments to note 25 (investment properties), note 30 (assets held under lease and for lease) and note 34 (financial instruments); and further disclosures relating to the cash flow statement (note 44). Non of these adjustments effect the net totals on the key financial statements.

- 4.4 Officers have chosen not to amend the financial statements for two misstatements which were identified during the audit because they are seen as not significant enough to impact on the readers overall interpretation of the financial position of the Authority. These are an under accrual of £42k and an understatement of £137k of the Housing Benefit overpayments debtors. Over £1.4million of creditor accruals have been posted in the accounts and £42k represents about 3% of this total. An adjustment for the £137k increase in Housing Benefit debtors would be partly offset by an adjustment to the bad debt provision. The total Housing Benefit overpayment debtors in the accounts at 31 March 2010 is £903k. If both of these adjustments were made to the accounts the net assets of the Council would be increased by about 0.1%.
- 4.5 The intention of Grant Thornton to provide an unqualified opinion on the financial statements, following approval at this Committee, is welcomed. Following the aforementioned adjustments to the accounts, none of the issues raised during the audit have given Grant Thornton concern that the financial statements do not present a true and fair view of the Council's financial position as at 31 March 2011.
- 4.6 It is important that any necessary action is taken to address the key messages arising from the audit for the production of the financial statements for 2011/12. Officers will ensure that the agreed management actions, detailed in section C of the ISA 260 report, are implemented for the production of this years accounts.
- 4.7 The Production of the 2010/11 Statement of Accounts has entailed more work this year compared to previous years due to the significant changes to the accounting regulations and the requirement to restate the 2009/10 Statement of Accounts. The 2010 Local Authority Accounting Code of Practice has been written to be compliant with the International Financial Reporting Standards (IFRS). This additional work has been accomplished without using external resources and at little additional cost to the Council.
- 4.8 The Council has a statutory responsibility to make copies of the accounts available for public inspection before the auditor gives their opinion. The Statement of Accounts were published on the Council's website and hard copies were made available in the Customer Services Centre. Officers did not receive any enquiries from the public during this time and we are not aware that any members of the public visited the Customer Services Centre to view the hard copies available.
- 4.9 Officers are not aware of any events that have occurred since the year end that provide additional evidence of conditions that existed at the 31 March 2011 or materially affect the amounts included in the Statement of Accounts.

## **5. LEGAL IMPLICATIONS**

- 5.1 The Accounts and Audit Regulations 2003 require that the Annual Statement of Accounts be approved and published by the deadline date of 30 September 2011. Members are reminded of the duty to set a balanced budget and to maintain a prudent balance.

## **6. FINANCIAL AND HUMAN RESOURCE IMPLICATIONS**

- 6.1 Financial implications are contained in the body of the report.
- 6.2 There are no direct human resource implications arising from this report.

## **7. RECOMMENDATIONS**

- 7.1 That the 2010/11 Annual Statement of Accounts, as set out in appendix A to the report, be approved and signed by the Chairman.

## **8. REASONS FOR RECOMMENDATIONS**

- 8.1 To ensure that any queries raised are addressed before the approval of the statement of accounts for 2010/11.

## **9. APPENDICES**

- 9.1 Appendix A - Audited Statement of Accounts 2010/11 **(to follow)**

## **10. CONTACT OFFICERS**

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## **11. BACKGROUND PAPERS**

- 11.1 Revenue Estimates 2010/2011  
Financial Ledger (March 2011)  
Un-audited Statement of Accounts 2010/11 (available on the website – link below):

[http://www.north-herts.gov.uk/index/council\\_and\\_democracy/budgets\\_and\\_spending/statement\\_of\\_accounts.htm](http://www.north-herts.gov.uk/index/council_and_democracy/budgets_and_spending/statement_of_accounts.htm)