

**Report to:** Audit Committee

**Date:** 25<sup>th</sup> June 2007

**Report of:** Director of Corporate Resources

**Report  
No:**

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**Report Title:** **Statement of Accounts - 2006/07**

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**Non Confidential:** This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

**Purpose:** This report presents the draft pre-audit Statement of Accounts to the Audit Committee drawing Members attention to certain aspects of the accounts and inviting comment or questions on the document as a whole.

Any comments of the Audit Committee will be reported to the Constitutional Panel, which has the responsibility for approving the draft Statement of Accounts for submission to audit.

**Recommendations:** The Audit Committee is asked to:

- Review the draft Statement of Accounts
- Seek any necessary explanations and clarification
- Comment on any issues identified
- Recommend the approval of the Accounts for submission for audit to the Constitutional Panel.

**Background Documents:**

- The Accounts and Audit Regulations (as amended)
- The Code of Practice on Local Authority Accounting – Statement of Recommended Practice and Guidance Notes for Practitioners 2006

## **1. INTRODUCTION**

The Accounts and Audit Regulations require the Authority's Final Accounts to be approved by an appropriate Member forum prior to submission for audit. At Bolton Council this role is fulfilled by the Constitutional Panel. The attached draft Statement of Accounts (Appendix 1) will become the Council's statutory accounts after any amendment found to be necessary on audit. A further report will be made setting out the results of the audit. As part of its function the Audit Committee reviews the draft Statement of Accounts prior to their consideration by the Constitutional Panel

## **2. CONTENT OF THE STATEMENT OF ACCOUNTS**

The Statement has been drawn up in accordance with the Accounts and Audit Regulations, the CIPFA Codes of Practice on Accounting for Best Value and on Local Authority Accounting in Great Britain. It contains considerable detail to meet legal requirements. To assist readers the document starts with listing of contents.

The "Foreword by the Director of Corporate Resources" and the "Glossary of Terms" are provided to assist readers understanding but are not themselves subject to audit. Particular attention is drawn to the "Foreword" which provides a summary of the overall financial situation and the significant aspects of accounts. The Foreword reports in the Management Accounting format confirming the position reported to the Executive on June 18<sup>th</sup>. The Statement of Accounts themselves report the same information but in a Financial Accounting format which is common to all English local authorities.

The new requirements of the 2006 Local Authority Accounting Code of Practice involved significant changes to the presentation of the Statement of Accounts.

- The Consolidated Revenue Accounts and some supporting statements have been replaced by a "Performance Statement" comprising an Income and Expenditure Account, A Statement of Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses.
- The layout of the Balance Sheet and the Statement of Accounts as a whole has been changed to comply with the order which is now prescribed.
- The notional interest charge to services for the use of assets has been abolished and services are now credited with amortised capital grants where appropriate to offset the cost of depreciation.
- Disclosure is now required on the face of the income and Expenditure Account of gains or losses on the disposal of fixed assets.

The rationale for these developments is to align public sector accounting to a common framework which embraces generally accepted accounting practice. There are several aspects where the presentational requirements conflict with the legal framework within which local authorities are required to operate. Such transactions are presented in accordance with generally accepted accounting practice in the Income and Expenditure Account but reversing entries are required within the Statement of Movements on General Fund Balance to ensure only items correctly chargeable against General Fund remain.

Given the magnitude in the changes faced this year and the need to restate the previous years accounts for comparability our auditors have been given early sight of the restated accounts for 2006/07.

The Statement on Internal Control considered elsewhere on this Agenda will subsequently form part of the published Statement of Accounts.

### **3. SPECIFIC ISSUES**

The restatement of the accounts has raised some transitional issues:

- The requirement to report the gains or losses on the disposal of assets focuses attention on this area and has give rise to a debate nationally about whether assets should be valued to a disposal value before they are sold (and whether this should be done retrospectively for restating 2005/06 accounts). As currently drafted our accounts have been adjusted to show nil loss / gain for both years in the knowledge no assets were sold at below market value.
- The requirement to report full cost although it does not ultimately fall on General Fund balances is best illustrated by Equal Pay Settlements which are reported on the Income and Expenditure Account as an exceptional item of £9.56m although £4.574m can be capitalised following a government direction and a further £0.41m is not to be charged revenue in 2006/07 using the provisions of the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. When the amount falls to be changed in 2007/08 a further capitalisation directive may then be available.

Following findings in the 2005/06 external audit of the Statement of Accounts:

- Outstanding asset valuations have been completed and Corporate Property records and accounting records aligned. In addition to updating valuations this has led to a review of the valuation basis of a number of assets.
- Reconciliation issues have been addressed and brought up to date. Whilst old irresolvable items from individual systems have been written off to revenue the effects have been largely offsetting. Thus there has been no significant impact on overall resources from this exercise and a sound basis has been established for future controls.

The specific aspects of the Balance Sheet which attract attention are:

- The reduced Pension Liabilities (£38.5m offset by the reduced reserve) reflecting improved returns on investments and evidence of take up of commuted sums rather than future pensions, a choice which is favourable to the Pension Fund.
- An reduction in Debtors (£10.6m), this reflects continuing effort to improve cash flow by concentration on debt collection
- Cash management transactions show almost matching increases in short term investments (£15.5m) and short term borrowing the increased long term borrowing (£57.4m) reflects the planned financing of capital expenditure net of debt repayments.

Whilst the Income and Expenditure Account and supporting reconciliation to the movement in General Fund Balances is consistent with the figures reported previously to Executive (and reproduced in the Foreword to the Statement of Accounts) the presentation brings out large movements:

- Education net expenditure has fallen by virtue of the introduction of Dedicated Schools Grant £156m)

- Trading Accounts Losses (£1.3m) reflect the loss of income at Markets reflecting both refurbishment of the Market Hall and declining rents elsewhere.
- The £9.6m Exceptional item is the full cost of Equal Pay commitments to date as explained above.

In reviewing the content of the accounts it should be noted:

- The note describing the investment in the Manchester Airport Group (MAG) repeats last year's note as the 2006/07 MAG accounts have yet to be received.

As the format of the Statement of Accounts is dictated by the Statutory Code of Practice, it is not best designed to meet the internal management needs of the Council. However if Members identify any areas of management significance on which they require further information, these will be addressed in subsequent reports.

#### **4 QUALITY ASSURANCE FRAMEWORK**

The production of the Statement of Accounts is a major complex task carried out in a very limited period of time. In order to minimise the risk of error a number of measures have been put in place:

- Returns from service accounting teams, on which the majority of the analysis is based, are designed to be self checking balancing back to the Oracle Ledger system and cross referenced to other sources both within and beyond the ledger system.
- Liaison is maintained with CIPFA (the body which advises on local authority accounting standards) and other Greater Manchester Council's to establish a common understanding of problem areas and new developments.
- The realignment of the management structure of the Council has reduced the mechanical facility to compare year on year changes at a detailed level. However an alternative review at aggregate level has been instituted.
- Staff not involved in the immediate production of the Statement of Accounts review the finished product with a view to improving presentation and eliminating ambiguity.

#### **5. CONCLUSION**

The Audit Committee is asked to.

- Review the draft Statement of Accounts
- Seek any necessary explanations and clarification
- Comment on any issues identified
- Recommend the approval of the Accounts for submission for audit to the Constitutional Panel