

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

30 JUNE 2008

REPORT OF THE DIRECTOR OF FINANCE

STATEMENT OF ACCOUNTS 2007-2008

1. EXECUTIVE SUMMARY

- 1.1. In line with the Accounts and Audit Regulations 2003 this report requests Members to approve the 2007-08 Statement of Accounts and for signature by the Chair of the Audit and Risk Management Committee on behalf of the Council.
- 1.2. A presentation will be made to the Committee to accompany the statement of accounts and will provide further interpretation of the statements and will also highlight any key issues for the benefit of Members.

2. BACKGROUND

- 2.1. The Accounts and Audit Regulations 2003 specify that the Statement of Accounts must be presented to an appropriate Committee by no later than 30 June.
- 2.2. I have signed the Accounts certifying that they represent fairly the financial position of the Authority. The Statement of Accounts is attached as an Appendix.
- 2.3. The Accounts are subject to audit and if the Audit Commission subsequently requires any material amendments to the Accounts, then as stipulated by the Regulations, these will be reported to the 30 September 2008 meeting of this Committee.
- 2.4. The Accounts are produced in accordance with the statutory accounting framework laid down by the Accounts and Audit Regulations 2003. The accounting framework is further supported by the Statement of Recommended Practice (SORP). The SORP is updated annually and specifies the accounting principles and practices required to prepare a Statement of Accounts which present fairly the position of a local authority. Some significant changes to the SORP took place in 2006/07 and further major changes have been implemented during 2007/08. These latter changes are explained below.

3 STATEMENT OF ACCOUNTS FORMAT AND RECENT CHANGES

3.1 Following significant changes in 2006/07 to the layout and accounting treatments, the Statement of Accounts now contains the following:

- An Explanatory Forward
- A Statement of Accounting Policies
- Statement of Responsibilities for the Statement of Accounts
- The Main Financial Statements comprising:
 - The Income and Expenditure Account
 - The Statement of Movement on General Fund Balances
 - Statement of Recognised Gains and Losses
 - Balance Sheet
 - Cash Flow Statement
- Notes to the Main Financial Statements
 - Collection Fund and notes
- Annual Governance Statement
- Merseyside Pension Fund- Fund Account and Net Asset Summary

3.2 The background and content of the above will be further explained to Members during the presentation. Three new main statements were introduced during 2006/07. These were the Income and Expenditure Account, the Statement of Movement on General Fund Balances and the Statement of Recognised Gains and Losses.

3.3 The Income and Expenditure Account shows the net cost for the year of all the functions for which the Council is responsible and sets out how the cost has been financed from general Government grants and the Council Tax. It is divided into three sections each divided by a sub-total:

- Net Cost of Services - this lays out the costs of the different continuing operations, including the cost of support services, net of specific grants and income from fees and charges to give the net cost of services. It also includes the net cost of discontinued operations, specifically costs relating to the former Housing Revenue Account.
- Net Operating Expenditure - this contains income and expenditure relating to the Council as a whole. When added to the net cost of services this results in the net operating expenditure
- Deficit or Surplus for the year - this shows the income and expenditure from local taxation and general Government grants in the year to give the net deficit or surplus for the year.

- 3.4 The Statement of General Fund Balances provides a reconciliation between the Income and Expenditure Account and the statutory requirement for the Council to take account of specific items when setting its Council Tax. The surplus or deficit in the Income and Expenditure Account represents the amount by which income is greater than or less than expenditure as measured by accounting practice. However there are items of income and expenditure that are required to be charged to the General Fund, which are taken into account when determining the budget requirement. They are determined by statute and not accounting practices. These show in the Statement of Movement on General Fund Balances. This statement shows the full picture of the financial performance during 2007-08 and the balances carried forward to future years.
- 3.5 The Statement of Total Recognised Gains and Losses summarises all the gains and losses of the Council for the year and shows the total increase or decrease in its net worth. The Income and Expenditure Account brings together all of the costs of Council services and summarises available resources. However the Council will be recognising other gains or losses in its Balance Sheet that are not debited or credited to the Income and Expenditure Account. The Statement of Total Recognised Gains and Losses brings together these other gains and losses with the outturn on the Income and Expenditure Account to show the total movement in net worth.
- 3.6 The other main statements are the balance sheet and cashflow statement. The balance sheet details the assets and liabilities. The cashflow statement details and categorises the value of transactions flowing in and out of the Authority accounts. Although these have been produced annually for a number of years their content and format have been subject to significant changes in recent years.
- 3.7 Internationally a number of accountancy regulatory bodies have agreed to a convergence of accounting standards and practices globally to enable easier comparison of accounts across countries. Local government accounts are moving to a standard known as International Financial Reporting Standards (IFRS). This has, and will, lead to significant changes to the format and accounting practices for local government. Due to the significant work involved in moving to IFRS compliance the changes have been taking place over a number of years.
- 3.8 A number of changes have been implemented to meet the 2007/08 SORP. These include two significant areas:
- Capital Accounting changes
 - Treasury Management (Financial Instrument) changes

- 3.9 Capital Accounting changes. In accordance with the SORP a Revaluation Reserve has been created. This account reflects revaluation gains on assets. Its creation requires the creation of very detailed accounting records for each individual asset owned by the Council and evaluation of every accounting transaction relating to the asset over its ownership history. This involves a significant additional workload compared to the previous methodology which had assets valued by asset type. The scale of this change can be evidenced by comparing the number of accounting entries required to comply with this element of the SORP which increased from 7 in 2006/07 to over 1,100 in 2007/08.
- 3.10 Treasury Management (Financial Instruments) changes. As part of a movement towards International Financial Reporting Standards three new Financial Reporting Standards (FRS) relating to financial instruments were adopted by Local Authorities in 2007-08. This is a significant change in the accounting treatment of financial instruments such as borrowings and investments. There has been a substantial undertaking to revalue borrowings and investments in accordance with the new FRS, particularly because of the complexity required in accounting for the 'market fair value' and amortized cost of any stepped interest rate and market loans. A number of new disclosure notes have also had to be produced to meet the SORP standard. In ensuring compliance with the new requirements the Authority has taken advice from Treasury Management Consultants.
- 3.11 The outcome of the Local Pay Review has also been a factor in the timing of the production of the Statement of Accounts. Negotiations are still continuing regarding the local pay settlement but given their advanced stage the Authority has had to recognise in its 2007/08 accounts that there is a likely liability for which a reasonable estimate can be made. These likely costs have only very recently been re-calculated to reflect the latest position and have been incorporated into the Authority Income and Expenditure Accounts for 2007-08 and a corresponding provision established.

4. MEMBERS ROLE IN SCRUTINISING THE STATEMENT OF ACCOUNTS

- 4.1 The Audit and Risk Management Committee has a role to ensure that the quality control procedures are in place to ensure that the Statement of Accounts submitted for audit is of the appropriate standard. Given the complex technical nature of the accounts the Committee is not expected to be able to review the accounts in detail. However it should consider the following:
- The key accounting policies
 - Assurances about the financial systems that have provided the figures for the accounts;
 - The quality control arrangements over the preparation of the accounts by the Director of Finance and his staff;
 - Key judgements in preparing the accounts;
 - Any issues raised by the Audit Commission that have to be resolved.

4.2 The Committee in scrutinising the Accounts may wish to ask the following:

- Are the accounting policies that are in place compliant with the relevant requirements
- Have the accounts been subject to sufficient review by the Director of Finance and relevant staff?
- Have the correct processes been undertaken in preparing the accounts and are these robust?
- That when new accounting issues have arisen, that appropriate advice on accounting treatment has been obtained?
- Are there suitable processes in place to ensure the accuracy of the financial records that the Council has kept during 2007-08?

5. FINANCIAL IMPLICATIONS

5.1 The purpose of the Statement of Accounts is to present the overall financial position of the Council at 31 March 2008 in accordance with guidance produced by CIPFA. Certain aspects may be directly related to the various out-turn reports presented to Cabinet on 26 June 2008 including the Financial Out-turn, Capital Out-turn and Determinations, Collection Summary and Treasury Management Annual Report.

6. STAFFING IMPLICATIONS

6.1. There are no specific implications arising out of this report.

7. EQUAL OPPORTUNITIES IMPLICATIONS

7.1. There are none arising directly from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising directly from this report.

9. COMMUNITY SAFETY IMPLICATIONS

9.1. There are no specific implications arising from this report.

10. LOCAL MEMBER SUPPORT IMPLICATIONS

10.1. There are no specific implications for any Member or Ward.

11. PLANNING IMPLICATIONS.

11.1. There are none arising directly from this report.

12. LOCAL AGENDA 21 STATEMENT

12.1. There are none arising directly from this report.

13. **BACKGROUND PAPERS**

13.1. Code of Practice on Local Authority Accounting in the UK – SORP 2007.

13.2. Capital Finance and Accounting Regulations 2008.

13.3. Accounts and Audit Regulations 2003.

14. **RECOMMENDATION**

14.1. That the Statement of Accounts 2007-08 be approved and signed by the Chair of the Audit and Risk Management Committee.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/157/08