

## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**28 SEPTEMBER 2010**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **STATEMENT OF ACCOUNTS 2009/10**

##### **1. EXECUTIVE SUMMARY**

- 1.1. The Statement of Accounts for 2009/10 was approved by this Committee on 30 June 2010 and was then subject to audit. The District Auditor will present his findings within the Annual Governance Report (AGR) together with any additional update to this meeting. Members are requested to consider his findings with this report (which may need to be revised depending upon the additional update) and then agree the Letter of Representation.
- 1.2. In accordance with the Accounts and Audit Regulations 2003 Members are requested to consider the adjusted amendments to, and the unadjusted misstatements in, the Statement of Accounts for 2009/10. This report highlights the suggested amendments from the audit.
- 1.3. The Statement of Accounts includes the Merseyside Pension Fund accounts as Wirral Council is the administering authority for the Fund. As the Fund receives a separate Annual Governance Report this has to be considered by Pensions Committee and also this Committee as part of approving the Accounts.

##### **2. AMENDMENTS TO THE STATEMENT OF ACCOUNTS**

- 2.1. The purpose of the Statement of Accounts is to present the overall financial position of the Council at 31 March 2010 in accordance with prescribed guidance.
- 2.2. Under the Audit Commission Act 1998 and the Audit Commission Code of Audit Practice for Local Government the District Auditor reports upon the Authority's financial statements.
- 2.3. There are number of amendments to the financial statements that have been requested by the District Auditor and are detailed in the Annual Governance Report (Appendix 2). At the time of preparing this report the item in respect of Government Grants Deferred remains outstanding. Raised by the Commission in August discussions continue and once concluded will result in an amendment to entries on the Balance Sheet. Members are asked to consider whether or not they agree to the amendments summarised in the following paragraphs.

### 2.3.1. Balance Sheet

The changes required related to the following adjustments:-

- i. A number of amendments have arisen from the inclusion of the Private Finance Initiative (PFI) scheme in the 2009/10 accounts. These relate to the treatment of Foundation Schools (£47.948 million), the recording of changes in asset balances for previous years (£47.144 million for 2008/09), the revaluation of land (£4.996 million) and the indexation of the lease liability (£3.791 million).
- ii. Capital expenditure recorded within the accounts for 2008/09 (£3.737 million) has now been impaired as it related to works of a general nature and not easily attributable to specific assets.
- iii. Assets were double counted (£1.283 million) or included in the wrong asset category (£0.376 million) and these misstatements have been amended in the revised Statement of Accounts.
- iv. The accounting entries for disposed assets (£0.236 million) were incorrect and amendments have been made to the Capital Adjustment Account and the Revaluation Reserve in the Balance Sheet.

### 2.3.2. Income and Expenditure Account

The changes required related to the following adjustments:-

- i. Expenditure (£1.465 million) and income (£1.465 million) was excluded from the Income and Expenditure Account due to one cost centre being omitted from the accounts.
- ii. Capital expenditure on part of the Marine Lake (£0.264 million) was incorrectly charged to the Income and Expenditure Account as Revenue Expenditure Funded from Capital Under Statute.
- iii. The asset lives of some libraries changed due to the Strategic Asset Review and subsequent decisions for their retention. This led to an incorrect depreciation charge (£0.845 million) being initially charged to the Income and Expenditure Account which has been corrected.

### 2.3.3 Statement of the Movement on the General Fund Balance

Changes to the Statement of the Movement on the General Fund Balance for 2009/10 were required in relation to the adjustments at 2.3.1 (i) (ii) (iii) and 2.3.2 (ii) (iii).

2.4 Amendments made to the draft Statement of Accounts 2009/10:-

<b>Amended Misstatement</b>	<b>Amount £000</b>	<b>Accounts / Area Changed</b>	<b>Effect on Balances £000</b>
Private Finance Initiative (PFI) - 5 Foundation Schools now excluded as status changed	47,948	Balance Sheet	Nil
PFI - Revaluation of assets in 2006/07 was excluded from the STRGL for 2008/09	-	Statement of Total Recognised Gains & Losses 2008/09	Nil
PFI - The revaluation of land accounted for as an in-year adjustment rather than in the PFI Prior Period Adjustment	4,996	Balance Sheet	Nil
PFI - Reduction in the PFI lease liability for indexation and inflation	3,791	Balance Sheet	Nil
Reclassification of expenditure on assets not attributable to specific assets so treated as impairment	3,737	Balance Sheet	Nil
Expenditure and Income in respect of Extra Care Housing now included in the accounts	1,465	Income & Exp Account	Nil
Assets were double counted in both surplus and construction asset balances	1,283	Balance Sheet	Nil
Surplus assets were incorrectly classified as construction assets	376	Balance Sheet	Nil
Marine Lake spend incorrectly treated as REFCUS not as an addition to fixed assets	264	Income & Exp Account	Nil
Correction of accounting entries in respect of disposed assets	236	Balance Sheet	Nil
Recalculation of depreciation for libraries that it was agreed remained with the Council	845	Income & Exp Account	Nil

2.5 These amendments have not changed the level of General Fund balance or reserves and provisions at 31 March 2010 which remain as reported to Cabinet on 24 June 2010.

### 3. AMENDMENTS NOT MADE TO THE STATEMENT OF ACCOUNTS

3.1 The District Auditor has also identified a number of misstatements which have not been adjusted in the Accounts. Detail of each item and an explanation as to why it has not been adjusted is given below. Members are asked to consider whether or not they would want to adjust the Statement of Accounts for any of these items. Any unadjusted misstatements must be referred to in the Letter of Representation, a draft of which is appended to this report.

3.2. Unadjusted misstatements in the draft Statement of Accounts 2009/10:-

<b>Unadjusted Misstatement</b>	<b>Amount £000</b>	<b>Account / Area Affected</b>	<b>Reason for not adjusting</b>
PFI - The Council should consider if lifecycle costs meet the definition of capital expenditure going forward. To date approx £2.185m lifecycle costs have been expensed.	2,185	Balance Sheet	The recommendation is to consider these going forward which will require further information to be obtained from the PFI contractors. This information was not available in 2009/10 so no amendment was made to the accounts.
PFI - The accumulated depreciation in respect of the PFI buildings is overstated by £0.881m as it was not correctly adjusted for following revaluation of the buildings in 2007/08	881	Balance Sheet	Relates to revaluations and are complex adjustments impacting upon a number of statements and supporting notes but not upon the financial position.
Year end BACS payments processed through the ledger but not through the bank account are included in the accounts as creditors. However, at the balance sheet date, the Council is no longer in control of these payments and therefore they should be reflected in the cash balance	5,727	Balance Sheet	This approach has been undertaken for at least 10 years in an account subject to annual review by the Audit Commission. There is no impact on revenue and the year-end processes to be revised for the 2010/11 financial year.
22 community assets were derecognised from the accounts as	1,276	Balance Sheet	The assets were removed because the descriptions were not

information could not be identified within the Council's asset records			recognised between the different systems and the changes were approved by the Valuer. Greater explanations will be provided to support any future changes.
Based upon the Council's model and recovery trends of existing aged debt I consider that the council tax bad debt provision is understated	625	Balance Sheet	The provision covers 57% of the total arrears at 31 March 2010, which is an increase from 50% in 2008/09, and is deemed to be adequate by officers.
Internal recharges in respect of rental payments have not been eliminated from the accounts	491	Income & Exp Account	The 'duplication' identified was one item for £25,000 which is not considered to be significant to adjust. Otherwise any internal recharges are excluded.
The amount for the surplus arising on the revaluation of fixed assets disclosed in the STRGL is inconsistent with information disclosed elsewhere in the accounts	314	Statement of Total Recognised Gains & Losses	The item raised is around consistent treatment within the accounts. Further work will be done prior to producing 2010/11 accounts to ensure consistency within the accounts.

3.3 These impact of the above is no change to the level of General Fund balance or reserves and provisions at 31 March 2010 which remain as reported to Cabinet on 24 June 2010.

#### 4. **CONCLUSIONS**

4.1 The Audit Opinion will be issued following Committee consideration of the Annual Governance Report and approval of any amendments to the Statement of Accounts. The District Auditor will issue his opinion before 30 September 2010 and state if the accounts are a true and fair view of the financial position of the Council at 31 March 2010.

4.2 The Auditor's report will be incorporated within the final version of the Statement of Accounts that will enable the accounts to be agreed and published by the statutory deadline of 30 September 2010.

## **5. COMMENTS**

- 5.1 The Statement of Accounts was presented to Committee before the statutory deadline of 30 June. The production of the Accounts for 2009/10 presented the Council and particularly the Financial Services Division with a number of challenges. The key areas being accounting for Private Finance Initiative (PFI) schemes and the accounting for, and recording of, asset information.
- 5.2 A large number of the amendments to the Accounts relate to the PFI scheme under a new International Financial Reporting Standard (IFRS). The Council was aware of the complexities in what are essentially schemes unique to each authority and, as with previous changes under PFI, sought external support. This came from an organisation which had previously supported health services in meeting the Standard with the knowledge obtained then transferred to the Council. Due to the size and complex nature of the changes guidance was sought from the Audit Commission, on the financial model developed and the treatment of Foundation Schools, in April and before the completion of the draft Statement of Accounts. The Commission responded in August and more latterly in early September with technical comments. These have been reflected in the revised Statement of Accounts.
- 5.3 Under the IFRS the Council is expected to improve and enhance its asset records and systems. This was highlighted in the Annual Governance Report for 2008/09 and since then a considerable amount of work has been undertaken to make improvements. The procurement of a new asset accounting system commenced in August 2009 with this leading to it being implemented during February / March 2010. This involved the transferring of thousands of records on buildings, previously held on spreadsheets, on to a new asset accounting system and whilst improvements were made to the quality of information, the processing of the transactions and audit trials this was part of meeting the longer term requirements under IFRS.
- 5.4 The amendments made as a result of the audit have been mainly around the areas of PFI and assets and reflect the complex and technical nature of these particular areas. There have been no changes to the level of the General Fund balance, reserves and provisions which remain as reported to Cabinet on 24 June 2010. As with previous years the Annual Governance Report and comments from the Audit Commission will assist in the preparation of future Statement of Accounts.

## **6. FINANCIAL AND STAFFING IMPLICATIONS**

- 6.1 The amendments made to the Statement of Accounts 2009/10 have no impact upon the financial position as at 31 March 2010.
- 6.2 The Audit Commission fee in respect of the 2009/10 financial statements, value for money conclusion and Whole of Government Accounts was £390,000.

6.3 There are no staffing implications arising from 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 MEMBERS SUPPORT IMPLICATIONS**

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

**11. LOCAL AGENDA 21 IMPLICATIONS**

11.1. There are none arising directly from this report.

**12. PLANNING IMPLICATIONS**

12.1. There are none arising from this report.

**13. BACKGROUND PAPERS**

13.1. Annual Governance Report - Audit Commission - September 2010

**14. RECOMMENDATIONS**

14.1 That Committee:-

- a) consider the referral from Pensions Committee on the Merseyside Pension Fund Accounts for 2009/10 including the Pension Fund Annual Governance Report and Letter of Representation.
- b) consider the Annual Governance Report presented by the District Auditor.
- c) agree the actions taken over the amendments to the Statement of accounts as detailed in sections 2 and 3 of this report.
- d) agree the Letter of Representation included as an appendix to this report.
- e) agree the action plan within the Annual Governance Report which is now completed and appended to this report.
- f) subject to the above, approve the revised Statement of Accounts for 2009/10.

IAN COLEMAN  
DIRECTOR OF FINANCE