

STATEMENT OF ACCOUNTS 2012/13

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Summary and Recommendations

Summary	The purpose of this report is to update members on progress with the completion of the Statement of Accounts 2012/13.
Recommendations	Members are asked to note the issues arising from the completion of the 2012/13 Statement of Accounts, which will be completed and certified by the Head of Corporate Resources by 30 th June for the purpose of Audit.

1 INTRODUCTION

- 1.1 In line with all authorities in England and Wales, Copeland Borough Council must comply with the statutory deadlines for approving its annual Statement of Accounts (the Accounts). The deadlines and process are as set out in the Accounts and Audit Regulations 2011.
- 1.2 The Responsible Finance Officer (for Copeland Borough Council this is the Head of Corporate Resources) must by 30th June immediately following the end of a year, sign and date the Accounts and certify that it presents a true and fair view of the financial position of the authority at the end of the year to which it relates and of the authority's income and expenditure for that year. The Accounts will then be passed to external auditors (Grant Thornton).
- 1.3 There is no requirement for the authority (i.e. the Audit and Governance Committee) to approve the unaudited Accounts at this stage. However it is good practice for members to be given early notification of the financial outcome of the previous year and to understand any key issues emerging, and that is the principle purpose of this report.
- 1.4 The production of the Statement of Accounts is a complex exercise and requires co-ordinated and managed effort authority-wide. This involves the Finance team working closely with service and budget managers. The Statement of Accounts is the statutory accounts of the authority and their production follows on from the suite of financial management out-turn reports which were considered by the Executive on 28th May. A full reconciliation between the out-turn figures considered by the Executive and the final Statement of Accounts is contained within the Accounts themselves.

- 1.5 The closure plan for 2012/13 has been monitored carefully throughout the closedown period and is expected to achieve a successful completion of the Accounts to be certified and handed over to the auditors by 30th June. Some individual deadlines within the plan have slipped, however the plan allowed for an element of slippage and actual slippage was fully accommodated by this provision.
- 1.6 This is not the end of the Accounts process for 2012/13, the next phase i.e. the detailed substantive audit testing by Grant Thornton will then commence, and the Finance team and other service managers where required will be required to respond promptly and completely to any queries and questions raised. The external auditor will form their judgement on the Accounts as a result of their findings and will report back to the Committee at their meeting on 25th September.
- 1.7 Following the completion of the audit process the Responsible Finance Officer (Head of Corporate Resources) will re-certify the presentation of the Accounts. The authority will then approve the Accounts and this process is undertaken by the Audit and Governance Committee who is delegated by Council to undertake this function. Following approval, the Accounts must be signed and dated by the person presiding at the Audit and Governance Committee at which the approval was given. Following this approval, the authority must publish (including publication on the website) the Accounts together with any certificate, opinion or report issued by the Auditor and must publish them by 30th September.

2 STATEMENT OF ACCOUNTS 2012/13

- 2.1 The Statement of Accounts is a complex document and runs to c 150 pages. It is the means by which the financial performance of the Council for the previous year is reported, but there are many requirements and conventions set down in statute and the regulations governing local authority accounts. There are also key aspects of the preparation of the accounts which rely upon the exercise of judgement and the interpretation of accounting regulations.

Local Authorities are required by law, to prepare accounts in accordance with 'proper practices'; the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting is the key framework for the preparation of the accounts.

- 2.2 The complexity of the Accounts means that the main points and concepts contained within the Accounts will need to be explained so that Members can undertake a more detailed assessment as they see fit and this training will be arranged to be undertaken at the start of the Audit and Governance Committee on 25th September. It is essential that there is seen to be appropriate consideration of the Statement of Accounts and that the Committee has been actively engaged.
- 2.3 The key elements and core statements within the Accounts together with some of the main issues currently arising are as follows:
- (i) **Explanatory Foreword** – The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters

reported in the accounts. The Explanatory Foreword provides an explanation of the authority's financial position, and assists in the interpretation of the financial statements. It will also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. Content and style are left to local judgement.

- (ii) **Statement of Responsibilities** – This sets out the responsibilities of the authority and the Chief Finance Officer (Head of Corporate Resources) in respect of the Accounts.
- (iii) **Statement of Accounting Policies** – Accounting policies are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements. This statement supports and explains the basis of the figures in the Accounts and it sets out the significant accounting policies and estimation techniques used in the preparation of the Accounts.
- (iv) **Annual Governance Statement** – This sets out the framework within which the corporate governance is managed and reviewed, including arrangements for internal audit. The AGS is considered in detail elsewhere on this agenda.
- (v) **Financial Statements** – There are four core financial statements:
 - **Movement in Reserves Statement** – this statement shows the movement in the different reserves held by the council analysed between usable (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.
 - **The Comprehensive Income and Expenditure Account** - This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The difference between the two positions is shown in the Movement in Reserves Statement.
 - **Balance Sheet** - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide

services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

- **Cash Flow Statement** – The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

(vi) **Notes to the Financial Statements** - The notes should:

- a) Present information about the basis of preparation of the financial statements and the specific accounting policies used
- b) Disclose the information required by the Code that is not presented elsewhere in the financial statements, and
- c) Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

The notes should, as far as practicable, be presented in a systematic manner, and should cross-reference each item in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement to any related information in the notes.

(vii) **The Collection Fund** – this reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing authority and the Government) on behalf of which the billing authority collects these taxes.

3 KEY ISSUES ARISING FROM THE 2012/13 STATEMENT OF ACCOUNTS

3.1 As previously stated the Accounts are currently in the process of being finalised and quality checked and will be available for the Auditors by the deadline of 30th June.

3.2 Following the audit and approval of the 2011/12 Accounts, the Audit Commission issued their Annual Governance Report (attached at Appendix A). This contained an Action Plan with 13 recommendations and progress on those actions is set out below:

	Recommendation	Current Position
1	Valuation of Heritage Assets	Complete. Insurance valuations utilised.
2	Implement New Asset Register	This is addressed fully in point 3.4 below
3	Improve Historic Costs records	These were fully reconstructed for system implementation
4	Charge Depreciation on Components of an asset	Automated system ensures human error can't affect individual assets
5	Co-ordinate the approach to asset valuations / lives.	Improved processes involving Finance and the valuation officers.
6	Review component economic useful life	As above and a review of how the accounting policy had been interpreted.
7	Vehicle and Plant depreciation	Rolling over spreadsheets annually by different staff resulted in anomalies in how depreciation was being calculated. Rectified by reconciling to old asset registers for asset lives and importing corrected lives onto system for going forward. Charges were not corrected historically as amounts were found to be immaterial.
8	Quality check information supplied by valuation third parties	Vacant post has been filled. Majority of information supplied is from internal resources.
9	Related Party Transactions	Procedures improved and subject to more robust scrutiny
10	Reconciliation of Exit package note with termination benefits	Complete
11	Resource allocation decisions	Reports and processes have been reviewed and improved
12	MMI Provision	Scheme has now been triggered and a provision created but will be subject to annual review.
13	Risk Management Strategy	Action Complete

3.3 There are relatively few accounting changes to the 2012/13 Accounts compared to the 2011/12 Accounts.

- 3.4 One of the key issues for CBC in relation to the 2012/13 Accounts is the introduction of a new Asset Management System. At the 2011/12 year end CBC were using a spreadsheet model which was prone to error due to the complexity of the data entries. At that time it was expected that the TOTAL asset system CBC already owned would be implemented. A great deal of work was done to cleanse the data ready for import, which involved tracing some entries back to 2007/08 asset register to address the problems of variable depreciation charges. It then became clear that TOTAL was not a suitable system. A new supplier (RAM) was selected causing further delays, as data needed to be restructured for import. Internal Audit assurance has been provided that all year end balances were imported correctly. Testing of the system took place during the closedown process with all asset transactions being completed on both the spreadsheet and within the RAM system in order to give assurance that everything was working as expected. The system is now ready to roll forward for 2013/14.
- 3.5 2011/12 also saw the first accounting entries for componentisation. It became apparent that there were differences of opinion between the valuers estimate of the useful economic life of a whole building and the quantity surveyors method of assessing useful economic life of the components within it. Processes now involve discussions between all parties so that consistency is applied. In addition it was felt that some of the identification of components was not correct and our accounting policy was not being correctly applied. The immateriality level was being applied to individual components but collectively the immaterial amounts were material. This has been corrected for the current financial year.

4 CONCLUSION

- 4.1 The Audit and Governance Committee is requested to note the issues arising from the completion of the 2012/13 Statement of Accounts, which will be completed and certified by the Head of Corporate Resources by 30th June for the purpose of Audit.
- 4.2 The Committee is also asked to note that training on the Accounts will be provided prior to them signing off the Accounts at their meeting on 25th September.

Appendix A – Audit Commission Annual Governance Report Action Plan 2011/12

Recommendation 1

Update expert valuations for heritage asset or consider switching to using insurance values for the Council's 2012/13 accounts.

Responsibility	Financial Services Manager
Priority	Medium
Date	31 March 2013
Comments	It is anticipated that under the current economic climate that a revised expert valuation will represent poor value for money and we will most likely move to using insurance values albeit whichever valuation is used we will need to ensure it is current.

Recommendation 2

Ensure the implementation of the new asset register is well planned and resourced and that Internal Audit is used to provide assurance that the data has been transferred accurately.

Responsibility	Head of Corporate Resources
Priority	High
Date	31 December 2012
Comments	It is currently anticipated that we will be implementing the Total Asset Register System (the same supplier as the Council's Finance system). A lot of work has been carried out on our asset records internally so we are in a good position to move forward but final confirmation that the Total System and the provider, Consilium, is fit for purpose, needs to be obtained. A second provider has been identified. Achievement of the timetable is highly dependent on whether we stay with the current provider. The exact process for data input is still to be confirmed, manual input or upload. The current spread-sheet system may need to be maintained for a period of time yet to be determined which may have a resource implication. Internal Audit will assist in the data assurance work.

Recommendation 3

Continue the work on improving historic costs records as part of the implementation of the new asset register.

Responsibility	Accountant – Financial Reporting and Technical
Priority	High
Date	31 October 2012
Comments	This process is well underway ready for implementation of the new asset system.

Recommendation 4

Ensure depreciation is charged on all components of an asset including the sub-structure.

Responsibility	Accountant – Financial Reporting and Technical
Priority	Medium
Date	31 March 2013
Comments	This was an isolated human error. Once the system is implemented comprehensively the error will not be possible. System testing on implementation, particularly by Internal Audit, and parallel running with the spreadsheet will ensure the same mistake is not repeated.

Recommendation 5

Ensure that there is dialogue between the Valuer, the staff responsible for componentisation assessment of asset lives and finance so that the asset lives used for depreciation of componentised assets is consistent.

Responsibility	Head of Corporate Resources
Priority	High
Date	31 March 2013
Comments	A more co-ordinated approach between all of the parties will be planned for the 2012/13 closedown taking into account the various professional disciplines view of asset lives and the Council's business requirements.

Recommendation 6

Consider the impact of assessed components useful economic lives and what plans the Council has in place to replace these components. If replacement is to be longer then consider re-assessing the component asset life assessments.

Responsibility	Head of Corporate Resources
Priority	High
Date	31 March 2013
Comments	A more co-ordinated approach between all of the parties will be planned for the 2012/13 closedown taking into account the various professional disciplines view of asset component lives and the Council's business requirements going forward.

Recommendation 7

Review asset lives and depreciation charges for vehicles and plant to ensure they are being depreciated based on the initial expected life for the asset. Where asset lives have been amended the Council needs to assess the impact on depreciation charges of this change.

Responsibility	Accountant – Financial Reporting and Technical
Priority	Medium
Date	31 October 2012
Comments	This process is well underway ready for implementation of the new system.

Recommendation 8

Ensure information supplied by experts, and on which the Council is to rely on for entries in its accounts, is quality checked and where considered necessary challenged.

Responsibility	Estates and Valuation Manager
Priority	Medium
Date	31 March 2013
Comments	The restructure of the property valuation service and recruitment to the vacant post of Valuer will assist us in quality assuring data

valuation and other information on which the accounts rely.

Recommendation 9

Improve the Council's arrangements for identifying and disclosing related party transactions (RPTs). These arrangements should ensure disclosures cover the whole year, all relevant members and officers and only those RPTs in respect of Copeland Borough Council.

Responsibility Democratic Services Manager

Priority Medium

Date 31 December 2012

Comments The arrangements will be reviewed to ensure disclosure for the whole year for all members.

Recommendation 10

Reconcile the agreed exit packages note and the termination benefits note to ensure all relevant information included and disclosed in the correct note.

Responsibility Human Resources Manager

Priority Medium

Date 31 March 2013

Comments Agreed – reconciliation will be carried out.

Recommendation 11

Ensure the note on 'Amounts reported for resource allocation decisions' clearly links back to in-year financial reporting.

Responsibility Accountant – Financial Reporting and Technical

Priority Medium

Date 31 March 2013

Comments	Agreed
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Recommendation 12

Ensure the Council re-assess whether a provision is required for Municipal Mutual Insurance Ltd (MMI) as part of the production of its 2012/13 accounts.

Responsibility	Accountant – Financial Reporting and Technical
Priority	Medium
Date	31 March 2013
Comments	We will have updated information from MMI on which to base any possible calculation for a provision.

Recommendation 13

Update the risk management strategy to reflect changes in Council new structures and responsibilities. Consider the strategic risk register more frequently and provide refresher risk management training for officers and members.

Responsibility	Head of Policy and Transformation
Priority	High
Date	31 October 2012
Comments	Strategy updated July 2012. Staff and Member training September 2012. Report to Executive October 2012. Risk Register now a quarterly item on CLT and Audit Committee agenda.