

**Wards Affected: All**

**ITEM NO.**

**AUDIT COMMITTEE**

**23 SEPTEMBER 2011**

**REPORT OF THE DEPUTY CHIEF EXECUTIVE/CORPORATE DIRECTOR FOR RESOURCES**

**THE STATEMENT OF ACCOUNTS - 2010/11**

**1. SUMMARY**

On 30 June 2011 the Deputy Chief Executive & Corporate Director for Resources, who holds the position of Chief Finance Officer, approved The Statement of Accounts (the Statement) for 2010/11 as giving a true and fair view of the financial position, income and expenditure, in accordance with the Accounts and Audit Regulations 2011.

At this point, the Statement was also subject to external audit, with the audit having to be concluded by 30 September 2011. In order to conclude the audit, the District Auditor is required to present an Annual Governance Report (AGR) to "those charged with Governance" by 30 September 2011, which is subject to a separate report on this agenda.

The Accounts and Audit Regulations 2011 also require the Audit Committee to consider and approve the Statement. The Chair of the Audit Committee and Deputy Chief Executive and Corporate Director for Resources are then required to sign a Statement of Responsibilities, including approval of the accounts. It is proposed to hold a separate meeting following Audit Committee to arrange for the signature of this statement.

At the time of writing the report the audit had not been finalised, however, any additional amendments are only expected to be minor. If necessary, a revision to this report may therefore need to be produced for Audit Committee. In addition a draft copy of the Statement has, therefore, been provided on the Council's intranet site at:

**Finance - Final Accounts Process – Financial Statements & Documents**  
**[\(Press Ctrl and Click Here\)](#)**

The intranet site will be updated with the final version on 21 September with copies available in the Labour and Conservative group rooms

**2. RECOMMENDATIONS**

It is recommended that:

- 2.1 The Statement of Accounts, as attached, is considered and approved.
- 2.2 The Annual Governance Report and the Council's response to the issues it raises are considered.

### 3. **BACKGROUND INFORMATION**

#### **Changes to the format and content of the accounts**

As a result of the introduction of International Financial Reporting Standards (IFRS) for all local authorities from 2010/11, there have been a number of changes to the format and content of the accounts. The changes include:

- New and revised statements.
- Changes in the valuation and reporting of assets and leases.
- Changes in the treatment of grants and leave for employees.
- A number of additional notes to the accounts. In particular the accounts now include an additional table to explain the difference between the authority's management accounts and the Statement.
- A restatement of 2009/10 comparative figures into the new format.

#### **Changes the accounts following audit review**

As a result of the restatement, the District Auditor has reviewed information provided in the Statement for both 2010/11 and the 2009/10 comparatives. Inevitably, certain changes arise from the work undertaken by both colleagues and the District Auditor as they examine the accuracy and completeness of the Council's annual accounts. Many of these changes are technical accounting changes and presentational in nature.

The changes made relate to a need to reclassify items within the Movement in Reserves Statement (MIRS), Comprehensive Income and Expenditure Statement (CIES), Cash Flow Statement, Balance Sheet and the Housing Revenue Account (HRA). The Group Accounts have also been amended to reflect the changes made in the core statements.

The net effect of these changes on the General Fund balance, reflecting the Council's 'bottom line', is nil and, for the majority, there is no impact on the 'net worth' of the Council. The 'net worth' of the Council equates to the balance of assets held after deducting all liabilities, which is also represented by the reserves held by the Council. The notes relating to these adjustments within the core statements have also been revised accordingly.

**Appendix 2** of the AGR included elsewhere on the agenda provides details of the amendments required to statements, and the revised Statement has been issued with the changes shown in blue. This has been done to assist in tracking the changes from the original statement approved by the Chief Finance Officer in June. Improvements to the narrative within the statement have also been made in order to further improve the clarity of the accounts.

### 4. **THE AUDITOR'S FINDINGS**

#### 4.1 **Areas of risk identified from the previous year's audit (2009/10)**

Prior to this year's audit the District Auditor identified 5 areas where risk issues existed, implementing IFRS, treatment of Eastcroft Incinerator, accounts payable, verification of employees on the payroll and related parties disclosure response.

The District Auditor is content with the Council's actions to address all of these issues except for the following:

a) Related parties disclosure

Colleagues within Strategic Finance have made numerous efforts to ensure returns have been received from all councillors and senior officers and, as a result, the return rate has improved from 18% in 2009/10 to 76% in 2010/11. This significant improvement has been achieved despite the challenges posed by changes in councillors following the May 2011 elections.

b) Accounts payable (AP)

In the light of concerns raised regarding control weaknesses, the District Auditor has given a "limited assurance" opinion over the Accounts Payable system. However, following the identification of the scale of problems within the AP process during the 2011 accounts closure, certain actions have been taken:

- To amend the supervisory structures within the AP team, allowing the introduction of more experienced / suitable management resource.
- To implement the changes necessary within AP procedures that will allow a recovery of acceptable performance within a short timescale and the delivery of excellent performance in preparation for the introduction of EMSS.

Alongside the improvements in process, we have worked to generate the management information necessary to properly understand performance within AP and, therefore, the required focus of our efforts. Since the introduction of this information the indicators have shown a continued improvement in performance.

c) Verification of Employees

The District Auditor's work in this area is not yet complete. However, colleagues expect to be able produce enough evidence to generate a positive audit conclusion.

#### 4.2 Major items identified from 2010/11 audit

The only major item included in the AGR relates to the de-recognition of assets. Where part of an asset has been replaced, the accounting code of practice requires the council to assess the remaining depreciated value of that element, which is then charged to the Comprehensive Income and Expenditure Statement. The Council has followed this approach for assets as a whole, but not for parts of assets. This is an issue that has only recently been raised and is being considered at national level, as it is an issue faced by numerous councils following changes in the Code of Practice on Local Authority Accounting.

The Financial Reporting team have undertaken some initial analysis based on expenditure during 2010/11 and believe that after allowing for depreciation and other factors, the net impact of any additional de-recognition is unlikely to have a material effect on the Statement. The Financial Reporting Team will continue

work in this area in consultation with the District Auditor and will provide a verbal update at the Audit Committee meeting.

The remaining items highlighted in the report relate to providing additional information in either the statements or notes to the accounts.

#### 4.3 **Value for Money Conclusion**

The District Auditor is required to review whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. The District Auditor has provided an unqualified conclusion and there are no items to bring to councillors' attention.

#### 5. **ANNUAL GOVERNANCE REPORT AND INTERNATIONAL STANDARD ON AUDITING (ISA) 260**

- 5.1 The AGRI in respect of Nottingham City Council's accounts for the financial year 2010/11 is included on this agenda. The ISA requires external auditors to report to "those charged with governance" before the 30 September 2011; in the City Council case, this requires a report to the Audit Committee.

#### 6. **SUPPORTING INFORMATION**

District Auditors Annual governance report,  
The City Council's Statement of Accounts for the financial year 2010/11.

#### 7. **FINANCIAL IMPLICATIONS**

As detailed in the report.

#### 8. **LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

Final Accounts working papers

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