STATEMENT OF ACCOUNTS
WDA/34/11

Recommendation

That Members:

1. Note the changes made to the accounts during the audit;
2. Approve the Statement of Accounts.

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Report of the Treasurer

1. Purpose of the Report

1.1 The Authority is statutorily required to prepare a Statement of Accounts that complies with proper accounting practices. The Authority is required to approve the Statement of Accounts each year. The Authority's Statement of Accounts is attached as Appendix 1.

1.2 Members' attention is drawn to amendments made to the accounts as a result of the audit of the draft statement that was prepared. These amendments have not had any negative impact on the financial performance of the Authority or its balances.

2. Background

2.1 The Statutory framework for the preparation and approval of the Authority's Statement of Accounts is set out in Accounts and Audit (England) Regulations 2011 which came into force on 31 March 2011. The framework made changes to the way the Authority's accounts are prepared and approved.

2.2 The changes to the framework meant that the Accounts should be prepared in draft by the Treasurer and signed before 30 June each year. Then, following the audit of the accounts, the accounts are adopted formally by the Authority by 30 September at which point an audit opinion is provided.

2.3 The Authority has complied with the statutory requirements for 2010-11 and the Auditor is prepared to issue an unqualified Audit Opinion.

3. The Statement of Accounts

3.1 The Authority's accounts were prepared under the provisions of the Code of Practice on Local Authority Accounting (the Code) which is prepared by the Chartered Institute of Public Finance and Accounting (CIPFA). The

Code that applied for 2010-11 was significantly different from the previous guidelines.

3.2 In previous years the Statement of Recommended Practice (the SORP) gave guidance on how to prepare the accounting statements using UK Generally Accepted Accounting Practice (UK GAAP). Under the Code the accounts now need to be prepared in accordance with International Financial Accounting Standards (IFRSs). This change is part of a wider approach in the public sector in the UK to ensure its accounting practices converge with the internationally accepted standards.

3.3 In some areas, for example accounting for pensions disclosures, there has been little change. In other areas there has been more significant change and the Statement of Accounts looks quite different this year compared with previous years.

4. Key changes

4.1 The four principal statements and many of the notes to the accounts are new or revised. The key statements are:

- The Comprehensive Income and Expenditure Account (CIES);
- The Balance Sheet;
- The Movement in Reserves Statement (MIRS); and
- The Cash Flow

4.2 Each of these statements is regarded by the Code as a principal statement and their order is not significant as each has the same precedence.

4.3 The fact that this is the first time the accounts have been prepared under the IFRS approach means that there are some unusual features to the accounts. The IFRS based approach has also brought some changes to the way some numbers are presented.

4.4 In particular, the first time adoption means that changes brought into the accounts are regarded as a change in accounting policy. To ensure the changes are fully disclosed in the accounts, the previous year's balance sheet has been restated. The opening balance for the previous year is shown and the closing balance is also shown. The effect of this is that there are three years of balance sheets shown in the statement of accounts. This is a one off and will not happen in a 'normal' year's accounts where only the prior year closing balance is shown. The effect is to show the impact of the changes over time.

4.5 In another change the IFRS based approach requires that every figure reported in the current year should have a comparative figure for the prior year. The effect of this is to make comparisons across accounting periods more transparent.

4.6 The Movement In Reserves Statement (MIRS) replaces the functions of the Statement of Total Recognised Gains and Losses and the Statement of Movement on General Fund Balance. The MIRS shows whether the Authority has been able to make contributions to its balances and reserves in any year, or whether it has had to utilise its reserves to support revenue or capital spending. It also shows how the effect of statutory accounting adjustments has ensured the impact of changes in technical accounting rules are mitigated and therefore do not impact on the Levy.

5. Other key changes

5.1 As well as the main statements of accounts having a different look there are some other key areas where the presentation has changed. These include new notes in respect of:

- the first time adoption of IFRS
- the effects of changes in estimation techniques
- accounting standards issued but not adopted
- critical judgements in applying accounting policies
- assumptions made about the future and other estimation uncertainty
- reconciling the accounts with the outturn
- leases
- intangible assets
- grants

5.2 Separately from the IFRS based changes there was a change in accounting policy in respect of cash. The Authority does not hold a bank account. As part of the arrangements with St Helens Council, the

Authority's cash is managed by the Council. Under former accounting arrangements the Authority and the Council agreed at the year end to calculate how much cash in the Council's accounts was in respect of MWDA. That amount was then shown on the Authority's balance sheet as cash. In reality the Authority held no cash and this was a notional figure. In reviewing the treatment this year the Council asked that this treatment be changed. From this year and going forward the Authority will not show a cash balance on the balance sheet. Instead an equivalent amount is shown in the Authority's accounts as a Debtor, representing the amount St Helens Council owes to the Authority, and would have to pay if the Authority and the Council separated the cash balance held at the Council's bank. An equivalent figure is included in St Helens Council's accounts as an amount owed by them to the Authority.

5.3 The change in the accounting treatment was made very close to the point when the accounts were due to be signed. In consequence the Authority made some amendments to the cash and debtors figure that still left a significant cash equivalent figure on the draft balance sheet, some £10M. Following the completion of the draft statement and during the course of the audit of the accounts it has been recognised that this cash equivalent figure would be better represented as a short term debtor. Hence in the statement of accounts now before Members there is a minimal cash figure and the debtors figure has grown. There is no overall impact on the Authority's balances or financial position.

5.4 After the draft statement was prepared and during the course of the audit of the accounts the external auditor identified that a net amount of £1.7M had been excluded from the charges for impairment relating to the Authority's assets, due to an omission. This amount was identified by the audit and an amendment was agreed. There was a compensating amendment to unusable capital accounting reserves and so there is no impact on the General Fund.

5.5 There were also a number of amendments to fixed assets disclosures relating to asset lives, which had an effect on a number of entries through the accounts including the impact of depreciation. Once again these impacts were offset by adjustments to the unusable capital accounting reserves and so there was no impact on the General Fund. There was a full revaluation of all the Authority's assets at the start of the year which was in line with the new accounting framework. However, in transferring those revised values an asset lives to the Fixed Asset record a number of transposition errors were made which mean that depreciation charges were wrongly calculated. The effect of this is that in overall terms there was an undercharge for depreciation of £800k on the CIES, which impacts on the headline financial performance. However, due to the statutory adjustments allowable through the MIRS and the Capital Adjustment Account the effect of this charge is reversed and there is no impact on the Authority's usable balances or ultimately on the Levy and Council Tax payer. (That is the reason the statutory adjustments exist – while local authorities comply with an IFRS based accounting regime the impact on the Council Tax payer is limited so that funding requirements are not overstated).

5.6 There was a technical accounting adjustment made to ensure the impact of capital accounting transactions did not impact on the Authority's financial position and the levy. The audit identified that this accounting adjustment had been processed twice. The effect of reversing one of the entries is to release £1.3M back into the Authority's usable reserves. It has been applied to replenish the Capital Fund set aside to fund future the capital programme.

5.7 The Group accounts were included in the Authority's statement as required by the Code of Practice. The prior period for the group entities that make up the group were originally misstated as they were taken from statements that did not include a full 12 month period. As a part of the audit the full 12 month period has been included to reflect the proper comparative period in the accounts.

5.8 Throughout the statement there have been a larger number of amendments and changes to the accounts than would be expected during the course of the audit. Although these are mostly issues relating to disclosures in the notes to the accounts the number of the amendments is higher than hoped for. The main reasons for these amendments being required are due to the additional complexity of the first time adoption of IFRS in the statement which should not be underestimated. This meant significantly more work was required in the same overall timescale as in prior years.

6. <u>Post Balance Sheet Event note</u>

6.1 The draft statement of accounts did not contain a post balance sheet event note as nothing that should be taken into account had arisen at that stage.

6.2 Following the closure of the draft accounts at the end of June, in July it became apparent that the arrangements the Authority had in place at Huyton with Orchid Environmental were to come to an unexpected end.

Orchid told the Authority it was ceasing its operations at the site on 8th July and that it would cease to occupy the site on 22nd July. There is a note of this in the accounts and the disposal of the asset is the subject of a further report on this agenda.

7. Risk Implications

7.1 There is a risk that the Authority will fail to comply with the statutory requirements regarding the approval of the statement of accounts. Recognising the changes in the requirements and putting in place new arrangements mitigates the risk.

8. HR Implications

8.1 There are no HR implications

9. Environmental Implications

9.1 There are no environments implications.

10. Financial Implications

10.1 There are no financial implications.

11. Conclusion

11.1 The Accounts and Audit (England) Regulations have brought about a change in the way the Statement of Accounts is approved by the Authority. The Statement is first signed by the Treasurer, then the statement is audited and only then adopted by the Authority, after which the auditor provides the opinion on the accounts. This brings local government into line with practices elsewhere. Members are therefore requested to approve the statement of accounts as part of this process.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.