STATEMENT OF ACCOUNTS
WDA/29/12

Recommendation

That Members:

1. Note the changes made to the accounts during the audit;
2. Approve the Statement of accounts; and
3. Agree the Letter of Management Representation to the auditor.

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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.

2.2 The framework means 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 2011-12 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 2011-12 was not significantly different from the previous years.

3.2 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

3.3 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. They are supported by notes to the account and are underpinned by Accounting Policies that confirm how key transactions and balances have been brought into the accounts.

4. Key issues

4.1 The audit of the accounts identified a number of changes that should be made and these have largely been made. The most significant adjustment was in respect of the former New Technologies Demonstrator Plant which was sold in the current financial year. At the point the decision was made to sell the plant, September 2011 the proper accounting treatment was to revalue the plant at its likely resale value. This had not been done as it was seen as a current year issue, and so the revaluation of the plant had to be made in the 2011-12 accounts. This is a technical accounting adjustment and was financed from non-cash or ‘unusable’ reserves that are set up in part for such an eventuality. The Capital Adjustment Account contained the Revaluation Reserve and the Deferred Government Grant that were utilised to offset the cost of the revaluation. The adjustment of £8.6m was made through these technical accounting reserves without impacting on the General Fund Reserve or other reserves available to support the Authority’s financial position.

4.2 There were some less significant adjustments to the accounts that had an impact on the General Fund balance of £316k. The main item in these adjustments related to a payment to the Merseyside Residual debt Fund that had not been identified at the closure of the Authority’s accounts in June. The General Fund Balance remains at a prudent level of £18.6M, which reflects the risks the Authority faces in the RRC procurement.

4.3 The impact of these adjustments is that a large number of amendments have had to be made to the Movement in Reserves Statement to reflect the changes made elsewhere in the accounts.

4.4 At the time of writing this report one significant matter remained unresolved. This may have an impact on the opinion the Auditor provides on the statement of accounts. In August the Auditor provided advice, based on their national technical advice, that where the Authority owns closed landfill sites that it should consider making a provision of between £1M and £2M per site for future costs that might arise from the sites. This advice has been provided to all waste authorities in England. In the case of Merseyside, if we accepted that position it would cost between £6M and £12M to make such a provision.

4.5 The Auditor has recognised the potential significant financial impact of making such provisions directly from the General Fund and has proposed an accounting treatment whereby the costs of the provision are capitalised over the life of the sites.

4.6 In line with other Waste Authorities the proposed treatment by the Auditors has been rejected at this stage. The conditions for making a provision do not appear to have been fulfilled, and the fact that the Authority manages the sites both operationally and financially to a degree that is greater than the annual cost of the capitalised provisions provides a significant mitigating factor. In the view of the Treasurer the treatment proposed by the Auditor is flawed and unless there is a significant change of view will not be adopted by the Authority. If the Auditor is unable to accept our view then it may be that they would have to qualify their opinion on our accounts. Likewise, if they are able to provide a more convincing case, then we may have to change the accounts to reflect their position. These matters are likely to be resolved by the time of the Authority meeting.

5. <u>Letter of management representation</u>

5.1 The auditor seeks representations from Management at the Authority that all matters have been disclosed that should be disclosed and that the assumptions underpinning any accounting matters that are considered to be unusual are declared fully. The Letter of Management Representations attached at Appendix 2 contains the information requested by the Auditor.

6. Risk Implications

6.1 There is a risk that the Authority will fail to comply with the statutory requirements regarding the approval of the statement of accounts. If the Authority approves the accounts this risk is mitigated.

6.2 There is a risk that the Authority's accounts may be qualified if the treatment of closed landfill provisions is not accepted. The qualification would be limited to that particular aspect of the accounts and while unfortunate would not have a significant wider implication.

7. HR Implications

7.1 There are no HR implications

8. Environmental Implications

8.1 There are no environments implications.

9. Financial Implications

9.1 There are no financial implications.

10. Conclusion

10.1 Members are therefore requested to approve the statement of accounts.

10.2 Members are also requested to approve the Letter of Management Representations.

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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.