STATEMENT OF ACCOUNTS 2013-14
WDA/31/14

Recommendation

That Members:

1. Note the changes made to the accounts during the audit
2. Approve the Statement of Accounts for 2013-14; and
3. Approve the Letter of Management Representation to the auditor

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STATEMENT OF ACCOUNTS 2013-14
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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 for 2013-14 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 improved the financial position of the Authority and contributed to an increase in the 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 2013-14 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 2013-14 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.

3.4 Following the audit in 2012-13, as recommended by the auditor, a review of the Authority's asset register and the underlying accounting entries has been undertaken by the Authority's staff in conjunction with an independent technical adviser. This has led to amendments to some prior period accounting entries and hence the accounts include both a prior period adjustment note, and as required a 'third' balance sheet so that the reader can follow the updated entries from the beginning of the previous accounting period. It is not anticipated that this exercise will be required in next year's accounts.

4. <u>Key issues</u>

4.1 Since the accounts were prepared for the end of June a number of amendments and adjustments have been made and agreed with the auditor.

4.2 Over a number of years the external auditors from the Audit Commission and subsequently Grant Thornton raised an accounting issue regarding the treatment of Closed Landfill Sites managed by the Authority. Their view was that the Authority should make a Provision in the accounts to provide for the future costs of managing the sites. The view taken by the Treasurer was that because the Authority spends a significant sum annually on maintaining the sites and carries appropriate insurance cover this was not necessary. The Auditors have accepted the Authority's position over the last couple of years. However, the external auditors have completed a further technical review of the position, and in their view a provision is required in the Authority's accounts going forward. Without such a provision being provided the auditors would have to consider making a qualification to the Authority's accounts.

4.3 To avoid the qualification it has been agreed to make entries in the accounts that reflect the auditors view and as a consequence a £11.3M provision has been made in the accounts. The amount will be written down each year to reflect the actual costs of maintaining the landfill sites. This very large provision has no impact on the Authority's financial performance and usable balances as it is offset by an equal and opposite entry in the Authority's technical accounting entries as a part of the Capital Adjustment Account (CAA). The subsequent annual entries to write down the provision are also reflected in equal and opposite entries writing down the CAA. The overall effect is to increase the provisions held on the balance sheet, matched off by an increase in the technical CAA, both sides of which are written down slowly as the landfill sites are managed over time. There is no direct impact on the Authority's financial performance or the balances available for use.

4.4 The Authority's accounting treatment for the Materials Recycling Facility at Gilmoss was reviewed. The treatment was regarded as being too prudent and charges had been made to the General Fund rather than solely against the balance sheet. This treatment continued over a three year period and correcting the entries has allowed the General Fund to be increased by over £2.3M.

4.5 A compilation error led to £380k of expenditure being double counted as it was included twice in the CIES, when corrected this has also improved the General Fund position.

4.6 The auditor identified a number of adjustments and amendments to disclosures in the accounts which have been agreed to ensure the accounts reflect the requirements of the Code of Practice more accurately. These adjustments and amendments are largely technical disclosures and do not have any direct impact on the Authority's overall financial position although some of them appear substantial:

- The most significant amendment is in a disclosure about financial instruments, which give the reader of the accounts information on the extent of the authority's long and short term financial liabilities and assets and the risks attached to each. A part of this involved reviewing the commitments entered into by the Authority in terms of long term contracts. The original treatment of the disclosure by the Authority reflected the full cost to the

Authority of the long term contract with Veolia, as a long term commitment. This was regarded as an over cautious approach, and an amendment to the disclosure was made such that instead of the whole cost of the contract being included, only the potential costs of assets acquired under the contract was required to be included. This led to a very large amendment to the disclosure of £351M, making a significant difference to the financial instruments note. The full cost of the Veolia contract is included elsewhere in the accounts. This makes no difference to the financial position of the Authority.

- Elsewhere in the financial instruments note an adjustment of £2.7M was made in respect of the difference between the book value and the fair value of the service concession liability.
- In the note accompanying the property plant and equipment disclosures the value of vehicles, plant and equipment, and the accompanying depreciation were both overstated by £10M. The balances in the balance sheet were correct, but in the note an equal and opposite adjustment had been left in. A further adjustment to the disclosure was made in respect of depreciation correctly charged to the CIES and MIRS but not shown properly in the note.
- Elsewhere there were a number of disclosure adjustments to help improve the quality of the accounts.

5. Letter of management representation

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. Recognising the changes in the requirements and putting in place new arrangements mitigates the risk.

7. HR Implications

7.1 There are no HR implications.

8. Environmental Implications

8.1 There are no environmental implications.

9. Financial Implications

9.1 The Authority's balances on the General Fund available for supporting revenue costs are increased by over £2M.

10. Legal Implications

10.1 The Authority will comply with its legal obligation regarding the statement of accounts by approval of the statement. This will allow the Auditor to provide an audit opinion and certificate, enabling the Authority to publish the accounts by the statutory deadline of 30th September.

11. Conclusion

11.1 Members are therefore requested to approve the Authority's Statement of Accounts for 2013-14.

11.2 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.