

Full Council – 30 September 2010

Agenda item 7 (i)

2009/10 Audited Statement of Accounts

Referral from: Performance Select Committee 21 September 2010

Lead officer: Stephen Joyce, Assistant Chief Executive - Finance

1. The Council approved the draft accounts on 29 June. The accounts have been audited during the Summer. The results of the audit and the audited accounts were reviewed by Performance Select Committee on 21 September. Accompanying this report are:
 - The Annual Governance Report, being the Audit Commission's report of matters arising from the audit of the accounts
 - The audited Statement of Accounts.
2. No adjustments have arisen from the audit that affect the Council's "bottom line" i.e. the amount of revenue reserves available to spend, or the financial performance reported to Members in June.
3. The Committee resolved to recommend that the Council approve the auditor's report and to approve the audited Statement of Accounts for publication.

RECOMMENDATIONS TO COUNCIL

4. The Performance Select Committee recommends that the Council:
 - a) Considers the matters raised in the Annual Governance Report before approving the financial statements (see pages 7 to 10 of the Annual Governance Report)
 - b) Takes note of the adjustments to the financial statements which are set out in the Annual Governance Report (Appendix 2)
 - c) Agree that the financial statements may be published without amending for the items detailed in Appendix 3 of the Annual Government Report, for the reasons set out in this covering report
 - d) Takes note of the qualified Value for Money Conclusion (Appendix 1 of the Annual Governance Report)

Recommendations continue overleaf.....

- e) Approves the Letter of Representation on behalf of the Council, as amended by the comments in this covering report (Appendix 4 of the Annual Governance Report)
 - f) Agrees the response to the proposed action plan (Appendix 6 of the Annual Governance Report)
 - g) Approves the audited 2009/10 Statement of Accounts for publication.
5. Following approval of the recommendations set out above by the Council, the Chairman will be asked to sign the accounts, and the Chairman of the Performance Select Committee and the Assistant Chief Executive – Finance will be required to sign a “Letter of Representation” to the Audit Commission.

MATTERS DISCUSSED AT PERFORMANCE SELECT COMMITTEE

6. The following were the key issues discussed by Performance Select Committee on 21 September:
- a) **Pension Fund** – the Committee received an explanation of the reasons for the increase in the Pension Fund deficit. The Committee was satisfied that the issues in Uttlesford were consistent with those in other councils in Essex and the national picture generally. The Committee noted that the material in the Statement of Accounts relating to the Pension Fund had been reviewed by External Audit with no issues arising. The Council will shortly be consulted upon proposals to alleviate the financial burden caused by the increased deficit. This will be considered by the Finance & Administration Committee in November.
 - b) **Cash Flow Statement** – the Committee received the Auditor’s comments about concerns regarding errors within the Cash Flow Statement, and officers’ assurances that the errors were being corrected.
 - c) **Bad Debt Provision** – the Committee noted that the auditors were of the view that the Council was potentially underestimating the bad debt provision. The Committee received a detailed explanation from the Assistant Chief Executive – Finance of the methodology used and the reasons why the auditor’s suggestions were not felt to be appropriate. The Committee was satisfied that no adjustments needed to be made.

UNADJUSTED MISSTATEMENTS

7. Not all of the matters arising from the audit have resulted in adjustments being made to the accounts. These are known as “unadjusted misstatements” and are detailed in Appendix 3 of the District Auditor’s report.
8. The term “misstatement” in this context can be something of a misnomer because these are in practice queries which are unproven as errors and/or are agreed between the auditors and Assistant Chief Executive – Finance on pragmatic and proportionate grounds not to pursue.
9. Unadjusted items arise for two main reasons:
 - Immaterial misstatements where a judgement is made not to adjust the accounts on practicality grounds.
 - Differences of interpretation of accounting requirements between the Council and the auditor, but that the nature of the difference is not material to the user’s understanding of the accounts, or the Council’s financial position, and thus do not prevent the issue of an unqualified audit opinion.
10. There is a requirement for unadjusted items to be formally reported to Members before the audit opinion is issued, so that there is evidence to show that Members are satisfied that the accounts can be published without making the adjustments.
11. The most significant unadjusted item relates to a difference of opinion between officers and the auditor relating to the bad debt provisions for Council Tax, Business Rates and Sundry Debts. This is an area of the audit that is still to be concluded. The auditor’s current view is that the bad debt provision is potentially understated i.e. the Council is potentially overstating the value of recoverable debts on its Balance Sheet. The 2009/10 accounts use a methodology for estimating future bad debts that is consistent with that used in the 2008/09 audited accounts. Collection rates have remained consistent so in the view of officers there is no evidence of a worsening position and therefore the previous methodology used remains appropriate. Clearly this is an area that needs to be kept under close review as economic trends continue but in the view of officers there is not yet sufficient evidence to assume that a significantly higher incidence of bad debt will occur. The Assistant Chief Executive – Finance is satisfied that the Balance Sheet is fairly stated. The Performance Select Committee discussed this issue and were satisfied that no adjustment to the accounts need to be made.

12. The unadjusted items arising in this year's audit are detailed in Appendix 3 of the auditor's report. The Assistant Chief Executive - Finance's advice to members is that the accounts may be published without adjusting for these items for the reasons stated in paragraph 9 above.

LETTER OF REPRESENTATION

13. The purpose of the Letter of Representation is to provide a warranty to the External Auditor that the Statement of Accounts has been prepared in good faith with all relevant transactions disclosed and significant uncertainties identified.
14. It has been agreed with the auditors that the standard wording set out in the Annual Governance Report (Appendix 4) will be supplemented with the following:
 - a) A generic explanation of the reasons why uncorrected misstatements have not been adjusted for, consistent with the comments given above.
 - b) A technical comment relating to the change in the Pension Fund regulations at national level to move from RPI to CPI for estimating future public sector pension increases.
 - c) Commentary regarding the inherent and ongoing uncertainty relating to the Landsbanki issue.

STATEMENT OF ACCOUNTS

15. The Statement of Accounts accompanying this report is identical to the version reviewed by Performance Select Committee apart from the following changes:
 - a) Revised Cash Flow Statement (page 29) and supporting notes (page 63). The revisions do not affect the "bottom line" (i.e. the net increase in cash & bank balances) but serve to ensure that the increase is easily reconciled with other figures in the Statement of Accounts.
 - b) A minor correction to note 9 (page 35).
 - c) A minor correction to note 40 (page 53).
 - d) A minor correction to Collection Fund note 5 (page 77).