



Audit Committee

22 September 2014

Report title	Audited statement of accounts 2013/14	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Keith Ireland, Delivery	
Originating service	Strategic Finance	
Accountable employee(s)	Mark Taylor Tel Email	Assistant Director Finance 01902 556609 mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	None	

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the formal publication of the 2013/14 Statement of Accounts, as required by the Accounts and Audit Regulations 2011, which require publication by 30 September.
2. Delegate authority to the chair of the audit committee to agree subsequent changes to the Statement of Accounts in consultation with the Assistant Director Finance should there be any audit adjustments.

Recommendations for noting:

The Committee is asked to note:

1. That the council's external auditors intend to issue an unqualified opinion on the Statement of Accounts 2013/14, subject to the outcomes of a few remaining elements of audit work.
2. That the external auditors have not identified any material errors in the draft accounts and there are no uncorrected misstatements.

1.0 Purpose

- 1.1 To update members of the committee on the audit of the 2013/14 Statement of Accounts.

2.0 Background

- 2.1 The draft Statement of Accounts was certified by the Assistant Director Finance on 30 June 2014, as per the statutory deadline. It was subsequently presented to the Audit Committee on 14 July 2014.
- 2.2 The draft was subject to audit by the council's external auditors, PricewaterhouseCoopers (PwC), which has been taking place during the last two months, and is now nearing completion. The council is required by law to publish the Statement of Accounts by 30 September 2014 (Accounts and Audit Regulations 2011).
- 2.3 Under the council's financial procedure rules, the Audit Committee has responsibility for the approval of the financial statements.
- 2.4 The format of the Statement of Accounts is governed by the Code of Practice on Local Authority Accounting (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). They are prepared in accordance with International Financial Reporting Standards (IFRS). The only significant change to the Code for 2013/14 was IAS 19; the accounting for defined benefit schemes and termination benefits.

3.0 Structure of the statement of accounts

- 3.1 The purpose of the Statement of Accounts is to give all interested parties clear information about the council's finances. In order to make the Statement of Accounts as useful as possible to its intended audience, the Code requires:
- (a) All local authority statements to follow a common pattern of presentation;
 - (b) Interpretation and explanation of the Statement of Accounts;
 - (c) The Statement of Accounts to be written in plain English as far as possible.
- 3.2 The Statement of Accounts comprises the following:
- (a) **Introduction to the Statements**, which provides a brief overview of each of the main parts of the statement.
 - (b) **Financial Performance 2013/14**: this section provides a summary of the council's financial performance for the year, as shown in Cabinet outturn reports.
 - (c) **The Medium Term Financial Strategy**: this section provides a summary of the council's medium term financial strategy, for each of the General Fund, the Housing Revenue Account and the Capital Programme.
 - (d) **Statement of Responsibilities**: this sets out the respective responsibilities of the council and the Section 151 Officer with regard to the accounts.

- (e) **The Auditor's Report:** this will be provided by PwC following the audit, and gives their opinion on whether the Council's financial statements present fairly its financial position and performance for the year, and their conclusion on the council's Use of Resources arrangements.
- (f) **The Financial Statements:** this section comprises the financial statements themselves, which include:
 - (i) **Comprehensive Income and Expenditure Statement:** this statement shows all the income, expenditure, gains and losses of the council during the year prepared on an accounting basis. It includes several items which are not charges or credits to the council's funds, as statutory provisions exist to neutralise their effect on Council Tax and Housing rents.
 - (ii) **Balance Sheet:** this statement reports the council's financial position at the year end. It shows the balances and reserves at the council's disposal, the fixed and current assets employed in its operations and the long-term indebtedness of the council.
 - (iii) **Movement in Reserves Statement:** this statement analyses the movements across all of the council's reserves, including the General Fund and HRA balances.
 - (iv) **Cash Flow Statement:** this statement summarises the inflows and outflows of cash during the year.
 - (v) **Notes to the Core Financial Statements:** this is a series of notes that are required by statute or that give additional information on figures in the main statements. The last of these notes is the Statement of Accounting Policies, which sets out the policies and, where appropriate, estimation techniques used by the council in preparing its accounts.
- (g) **The Housing Revenue Account (HRA) Statements:** comprising the HRA Income and Expenditure Account, the Statement of Movement in the HRA Balance, and Notes to the HRA Statements.
- (h) **The Collection Fund Statements:** comprising the Collection Fund Income and Expenditure Account and the Notes to the Collection Fund Statements.
- (i) **West Midlands Pension Fund Statements:** although West Midlands Pension Fund is a separate entity and its accounts are not consolidated with the council's, the Code requires administering bodies such as Wolverhampton to include a summarised version of the Pension Fund accounts in their financial statements.
- (j) **Annual Governance Statement:** This is a statement required by the Accounts and Audit (England) Regulations 2011 that outlines the council's governance arrangements.
- (k) **Glossary:** explaining some of the terms used in the financial statements, particularly those that are not part of everyday English.

4.0 Key elements of the Audited 2013/14 Statement of Accounts

- 4.1 The net cost of providing services, shown in the Comprehensive Income and Expenditure Statement, was a deficit of £97.4 million. This compares to a deficit of £98.2 million for 2012/13. It is important to remember that this is prepared on an accounting basis and

includes many transactions which are subject to statutory adjustment and do not impact on the council's usable reserves and therefore on the setting of council tax and housing rents.

- 4.2 The Comprehensive Income and Expenditure Statement also includes a number of other gains and losses on council assets/liabilities. These relate to revaluations of fixed assets and notional gains and losses on the council's 'share' of West Midlands Pension Fund's assets and liabilities. These items are responsible for very significant year-on-year changes: in 2013/14 they amounted to a net gain of £116.4 million, while in 2012/13 they caused a net loss of £129.1 million. Despite the size of these numbers and their significant impact on the accounts, it must be remembered that they are only included in order to comply with accounting requirements, and are reversed for statutory purposes.
- 4.3 The net worth of the council as shown on the Balance Sheet has increased to £387.3 million from £368.4 million. The main contributors to this are set out below:

	Comments	Change £m
<u>Increases in Net Worth</u>		
Fixed Assets	Expenditure on capital programme	93.1
	Revaluation of fixed assets	6.0
Current Investments	Increase in amount held in Money Market Funds and Deposit Accounts at year-end	8.0
Receivables/Payables	Net increase in receivables/decrease in payables	12.0
Pension Liability	Due primarily to changes in Actuarial assumptions and calculations (*)	89.8
<u>Decreases in Net Worth</u>		
Fixed Assets	Depreciation and Impairment Charges for the Year (*)	(85.0)
	Disposal of fixed assets	(74.4)
Borrowing	Net increase in borrowing during the year to fund capital expenditure	(44.8)

(*) Statutory provisions exist to neutralise the impact of these items on the council's resources available for revenue or capital expenditure.

- 4.4 The net increase in the council's reserves for the year, as shown in the Movement in Reserves Statement, was £18.9 million. This is made up of an increase of £3.7 million in usable reserves, and an increase of £15.2 million in unusable reserves (unusable reserves are technical accounting reserves, usually reflecting statutory adjustments). This compares to a net decrease of £227.3 million in 2012/13 (£28.4 million decrease in usable reserves; £198.9 million decrease in unusable reserves).
- 4.5 The Movement in Reserves Statement shows the movement in the council's General Fund and HRA balances for 2013/14. The General Fund Balance increased by £11.1 million, standing at £27.0 million as at 31 March 2014. The HRA Balance did not change and remains at £5.0 million.
- 4.6 The HRA Income and Expenditure Account shows a surplus of £14.9 million for the year (2012/13 surplus of £9.3 million). This surplus was used to provide for the redemption of debt as part of the HRA's capital financing strategy to create headroom against the debt cap to fund capital expenditure in the future.
- 4.7 The HRA reserve stands at £5.0 million at 31 March 2014. The funds in this reserve can only be used to finance revenue expenditure against the HRA budget in accordance with statute.
- 4.8 The Collection Fund generated a surplus for the year of £700,000. This will be distributed between the preceptors. This includes a provision made this year against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2014.
- 4.9 The Group Comprehensive Income and Expenditure Statement shows a net deficit on the provision of services for the year of £99.4 million, compared to a net deficit of £100.5 million in 2012/13. The net loss for 2013/14 is made up of the council's net loss of £97.4 million and a net loss for Wolverhampton Homes of £2.0 million (2012/13: net loss of £98.2 million and £2.3 million respectively).

5.0 Outcomes of the Audit

- 5.1 The key outcomes of the audit of the Statement of Accounts are:
- (i) PwC's opinion as to whether the statements give a true and fair view of the council and its group's financial position at the year end, and the income, expenditure and cash flows for the year there ended;
 - (ii) PwC's conclusion on the council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year in question;
 - (iii) A report which summarises the issues arising from the audit of the statements, including the pension fund accounts, and issues which they are formally required to report to Members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance". This report is presented under item 7 of the agenda.

- 5.2 The committee can draw assurance from PwC's intention to issue an unqualified opinion on the financial statements, subject to the outcomes of a small number of remaining elements of audit work. This will be included in the published Statement of Accounts.
- 5.3 Some minor audit and accounting issues were identified during the audit but PwC are satisfied that these are appropriately reflected and disclosed in the financial statements.
- 5.4 One deficiency in internal control was identified, namely that the records of building floor areas which underpin the revaluation exercise were not always up to date. After instructing surveyors to provide up to date measurements for a sample selection of properties and comparing the new measurements to those used in the valuation exercise, it was concluded that the base data used in the valuations resulted in a materially accurate valuation. Management has already put a new system in place to address the requirement for providing up to date supporting documentation for internal floor areas of buildings.
- 5.5 As a result of their work on the draft Statement of Accounts, other than a number of minor changes and additions to the disclosures, PwC have not identified any material errors in the draft accounts and there are no uncorrected misstatements.

6.0 Financial Implications

- 6.1 The statement of accounts is one of the most important financial documents that the council produces. The statement, and the forthcoming audit of those statements by the external auditors, is fundamental to the accountability and transparency of the council's finances.

[CF/14092014/K]

7.0 Legal implications

- 7.1 The Accounts and Audit (England) Regulations 2011 require the 2013/14 Statement of Accounts be produced in accordance with proper practice. This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 30 June 2014 and published by 30 September 2014.

[TS/15092014/F]

8.0 Equalities implications

- 8.1 There are no equality implications arising from this report.

9.0 Environmental implications

- 9.1 There are no environmental implications arising from this report.

10.0 Human resources implications

10.1 There are no human resource implications arising from this report.

11.0 Corporate landlord implications

11.1 There are no implications for the council's property portfolio arising from this report.

12.0 Schedule of background papers

Draft Statement of Accounts 2013/14, report to Audit Committee, 14 July 2014