

AUDIT PANEL		
Report Title	DRAFT STATEMENT OF ACCOUNTS 2011/12	
Key Decision	No	Item No. 5
Ward	ALL	
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION	
Class	PART 1	Date: 20 JUNE 2012

1 SUMMARY AND PURPOSE

- 1.1 To review and comment on the draft Statement of Accounts for 2011/12 and the Annual Governance Statement.

2 EXECUTIVE SUMMARY

- 2.1 The Council is no longer required by law to obtain elected Members' approval of its draft accounts. However, given the importance of the document, and its complexity, officers are still of the view that it is appropriate to present the draft accounts to the Audit Panel. Accordingly, the draft accounts for 2011/12 are attached as Appendix 1 to this report (circulated under separate cover).
- 2.2 The draft 2011/12 accounts of the Pension Fund and the draft Annual Governance statement (AGS) are also attached as Appendices for information (again circulated under separate cover).
- 2.3 The summary of expenditure against budgets for 2011/12, known as the outturn, has already been reported to the Public Accounts Select Committee (on 14 June 2012) and is being reported to the Mayor & Cabinet at the same time as this meeting. The outturn should be read as a background paper to this report.

3 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Panel note the report and appendices.

4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

- 4.1 Officers have prepared the draft accounts so as to be able to despatch them to this Panel by 12 June 2012, slightly earlier than was the case in 2010/11. Some other authorities have taken advantage of the new provisions of the Accounts and Audit Regulations 2011 to approve their draft accounts nearer to the 29 June 2012 deadline.
- 4.2 It has unfortunately not been possible to finalise the Group Accounts Statement by the date of despatch of this report, although this will be available to this Panel at its meeting. The complete draft accounts will therefore be available in advance of the 29 June 2012 deadline. The Pension Fund accounts have already been presented to the Pensions Investment Committee.

- 4.3 Within the accounts four statements are defined as “core financial statements”, which essentially means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

Movement in Reserves Statement (MiRS)

- 4.4 The MiRS shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be used to fund expenditure) and other reserves of a technical nature which cannot be used to fund expenditure. This is therefore a helpful summary of the resources that the council has available to fund future expenditure and to manage financial risks.

Comprehensive Income and Expenditure Statement (CIES)

- 4.5 The CIES sets out the total expenditure by the authority in the 2011/12 financial year, some £1bn. The format of the CIES is completely different to council’s management accounts, which present income and expenditure by Directorate. However, a reconciliation between the two is provided by note 23 to the core financial statements, segmental reporting, which discloses net expenditure by directorate in a form that Members will be familiar with from the Outturn report.

Balance Sheet

- 4.6 The balance sheet reports the ‘total equity’ of the council, and shows that it is similar to that of last year, around £0.94bn as at 31 March 2012 compared with some £0.90bn as at March 2011.

Cash Flow Statement

- 4.7 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2011/12 financial year. This statement is more valuable to understanding the financial health of private companies rather than local authorities, since most local authority funding comes either from government grants or from local property taxation.

Other Statements

- 4.8 Members’ attention is also drawn to the following financial statements, which although not technically defined as “core financial statements” are nonetheless highly important to understanding key aspects of local authority services and financing.
- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
 - The Collection Fund which presents a summary of the collection of council tax and national non domestic rates.
- 4.9 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding the financial position of the authority:

- Notes 15 and 19 to the core financial statements, which disclose the debtors to and creditors of the council as at 31 March 2012
 - Note 20 to the core financial statements, which discloses the provisions against likely future events held by the authority
 - Note 7 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.
- 4.10 The format of the accounts is essentially prescribed. As a result the document is extremely long and detailed. Members may have questions that they wish to pose to officers on points of detail. Appropriately qualified officers will attend the meeting and make their best endeavours to answer these. However, given the level of detail contained in the accounts it is likely that some questions of detail may not be capable of being answered at the meeting. If Members are minded to ask questions on points of detail they are respectfully requested to submit them in advance to Richard.lambeth@lewisham.gov.uk, ideally at least 24 hours before the meeting, in order to facilitate this.

5 ISSUES FOR THE ATTENTION OF MEMBERS

- 5.1 in constructing the accounts the officers concerned have applied professional judgements in the areas set out below. Officers believe that these are the correct judgements to apply, but acknowledge that with IFRS these are areas where alternative decisions might have been made, as the appropriate treatment is subject to professional debate. It is possible that the auditors may, during the course of their audit work, come to a different view, and as a result may recommend a different treatment.
- 5.2 Where future funding is uncertain, IFRS requires that consideration is given to 'impairing' (i.e. reducing) the value of assets that might be affected, for example if services were forced to close as a result. Although future government funding is less certain than may have been the case in previous years officers are of the view that there is sufficient certainty as regards funding in 2012/13 and subsequent years that such impairments are unnecessary.
- 5.3 There are a number of areas where officers have been required to make judgements about possible future events. These include issues such as judging the amounts of the debts due to it that may ultimately not be paid and more technical issues such as the actuarial assumptions to apply to value future pension liabilities. Officers have always had to make such judgements in constructing the accounts, although in some cases the factors to be considered in making these judgements have changed as a result of IFRS.
- 5.4 Finally, Members' attention is drawn in particular to the accounting treatment for the indemnity granted to Lewisham Homes in respect of pensions costs. This indemnity was agreed by the Council when Lewisham Homes was established, and the accounting for it has been a matter of concern to the auditors in recent years, and has been reported to Members as such.

- 5.5 Officers have again discussed this closely with the Audit Commission, and presented a sound and well-reasoned argument as to why the treatment they adopted in 2009/10 and last year remains correct. This treatment has again been adopted for 2011/12.

6 FINANCIAL IMPLICATIONS

The accounts are a financial document, and present a picture of the council's activities in 2011/12 and its assets and liabilities as at 31 March 2012. However, there are no financial implications directly arising from the Panel considering the draft accounts.

7 LEGAL IMPLICATIONS

- 7.1 Regulation 8(2) of the Accounts and Audit Regulations 2011 (the Regulations) means that local authorities are no longer required to obtain elected Members' approval of their draft accounts. Regulation 8(3)(b) does require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final accounts, having considered the auditor's report thereon.
- 7.2 The Regulations do require that the draft accounts are approved for issue by 30 June following the year end by the Responsible Finance Officer under s151 of the 1972 Act. In Lewisham, that officer is the Executive Director for Resources and Regeneration.

8 OTHER IMPLICATIONS

- 8.1 There are no direct equalities, environmental or crime and disorder implications arising from this report.

APPENDICES

(Dispatched under separate cover)

- Appendix 1 – Draft Statement of Accounts 2011/12
- Appendix 2 – Draft Pension Fund Accounts 2011/12
- Appendix 3 – Annual Governance Statement 2011/12 (AGS)
- Appendix 4 – AGS Action Plan

BACKGROUND PAPERS

Outturn report 2011/12 (PAC 14 June 2012, M&C 20 June 2012)

For further information on this report please contact:

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