



Statement of Accounts 2010/11 Post Audit Approval

1. SUMMARY

- 1.1 Following completion of the audit of the 2010/11 Statement of Accounts, the Audit and Accounts Committee is asked to approve the final set of accounts. The final set of approved accounts has to be published by 30 September 2011 under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The Council's External Auditors, Grant Thornton, anticipate issuing an unqualified audit opinion, subject to this Committee's approval of the Accounts at Appendix 2 and acceptance of the external audit memorandum at Item 9 on the agenda.

2. RECOMMENDATION

- 2.1 To approve the final set of accounts for the 2010/11 financial year at Appendix 2, which include final adjustments made following the audit as explained in Appendix 3.
- 2.2 To note that a number of issues were identified by the external auditors and have led to a number of audit adjustments being made to the accounts presented to this Committee in June 2011.
- 2.3 To note that the auditors anticipate issuing an unqualified audit opinion, subject to this committee's approval of the accounts at Appendix 2 and acceptance of the external audit memorandum at Item 9 on the agenda.
- 2.4 To review the letter of representation in relation to the 2010/11 Statement of Accounts to be signed by the Strategic Director of Resources and the Chief Executive at Appendix 4 and confirm it is content that the declarations may be signed in good faith.
- 2.5 To agree the capital determination be recommended for approval at Appendix 5.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To provide details of the changes required to the Council's draft accounts, presented for information to Audit and Accounts Committee in June 2011, following completion of the 2010/11 external audit process.

- 3.2 To comply with legislation that the Audit and Accounts Committee approve the final set of accounts and publish these by 30 September 2011 under the Accounts and Audit Regulations 2003 (as amended).

SUPPORTING INFORMATION

4. 2010/11 AUDIT PROCESS

- 4.1 The Council's external auditors, Grant Thornton (GT), have now completed the audit of the 2010/11 set of accounts presented to this committee on 30 June 2011. They are required to issue a report summarising the results of the audit covering issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission's Code of Audit Practice and International Standard of Auditing ISA260 – Communication of audit matters with those charged with governance. This report is included as Item 9 on the agenda.
- 4.2 The Committee can draw assurance from the following results of the 2010/11 audit as confirmed in the report:
- GT anticipate issuing an unqualified audit opinion, subject to this Committee's approval of the Accounts at Appendix 2 and acceptance of the external audit memorandum at Item 9 on the agenda.
 - All adjustments identified during the audit have been made to the accounts to the satisfaction of external audit.
 - The changes to the Accounts have not altered the £1.428m revenue outturn reported to the Committee in June 2011.
 - External Audit have provided positive feedback on the audit process and working papers provided by officers
- 4.3 For 2010/11, the Council's Statement of Accounts have been prepared for the first time on an International Financial Reporting Standards (IFRS) basis, rather than under UK GAAP (Generally Accepted Accounting Practice) as in previous years. This change in accounting convention means that there are significant changes to the Statement of Accounts from previous years.
- 4.4 In accordance with IFRS 1 (First-time adoption of International Financial Reporting Standards) and International Accounting Standard 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the Council has applied IFRS accounting policies retrospectively, except where this has been assessed as impracticable and prospective application is permitted under the Code. This retrospective application has required the restatement of the 1 April 2009 balance sheet and the 2009/10 Statement of Accounts to reflect the conversion to IFRS accounting.
- 4.5 The restatement of the 1 April 2009 balance sheet and the 2009/10 Statement of Accounts has also been subject to audit, and the outcomes of this review are included within the external audit memorandum at Item 9 on the agenda. External Audit have provided positive feedback on the Council's presentation of the first set of financial statements prepared under IFRS and the successful delivery of the Council's IFRS transition project.

- 4.6 Under the International Standard on Auditing (UK & Ireland), (ISA 580), 'Management Representations' and the Local Government Accounting Code of Practice (issued by CIPFA) the Council is required to submit a letter of representation to its external auditors, Grant Thornton.
- 4.7 The Letter of Representation in Appendix 4 sets out assurances from the Council to Grant Thornton that relevant accounting standards and disclosure requirements have been complied with.
- 4.8 The 2010/11 Capital Determination is presented at Appendix 5, in accordance with the Local Government and Housing Act 1989 and Local Government Act 2003.

5. SUMMARY OF AUDIT ADJUSTMENTS

- 5.1 Following the audit, changes required to the Statement of Accounts have been agreed and incorporated in the final set of accounts at Appendix 2. These adjustments are explained in detail at Appendix 3. All changes reported are due to technical non-cash adjustments, adjusting the draft Comprehensive Income and Expenditure Account surplus of £61.8m downwards by £108.5m to a £46.7m deficit but had no overall impact on the General Fund deficit and revenue outturn which remained unaltered. The most significant adjustments are explained in more detail below:
- 5.2 **Accounting for Foundation Schools:**
The Council has changed its treatment of Foundation Schools to include the full value of the school on the Council's Balance Sheet. This treatment was applied in the draft 2010/11 Statement of Accounts, but had not been applied retrospectively in the 2008/09 and 2009/10 restated accounts. This adjustment has led to a decrease in the 'Surplus on Revaluation of Property, Plant and Equipment' on the Comprehensive Income and Expenditure Account of £66.7m, and a reduction in the value of Long Term Assets on the Balance Sheet at 31 March 2011 of £17.3m.
- 5.3 **Accounting for Academy Schools:**
On 01 April 2011, West Park Foundation school achieved Academy status. The value of this school at £27.6m had been included in the Council's fixed asset register (and draft Statement of Accounts) at 31 March 2011. The Council transferred the assets to the school on 01 April 2011. An audit adjustment was therefore required to impair this asset to nil value at 31 March 2011. This led to a reduction in the value of Long term Assets on the Balance Sheet at 31 March 2011 of £27.6m and corresponding changes to the Comprehensive Income and Expenditure Account of £19.7m in the 'Surplus on Revaluation of Property, Plant and Equipment' and an increase of £7.9m in the impairments charged to Education and Children's Services.
- 5.4 **Impairment of Council Dwellings:**
Audit procedures identified an impairment adjustment of £9.8m to Council Dwellings to reflect the reduction in value of Council Dwellings at 31 March 2011 since the full valuation exercise completed on 01 April 2010. This adjustment has no impact on the Council's General Fund Balance, as it is offset as a non-cash adjustment under the Local Authority Accounting Code of Practice against the Capital Adjustment Account.
- 5.5 **Other Numerical Adjustments:**
A small number of other audit adjustments were also raised during the audit including the correction of Housing Benefit debtors and creditors (£37,000), and other debtors

(£30,000). These resulted in a net transfer of funds from the Council's uncommitted General Budget Risk Reserve of £67,000. Further details of the other numerical adjustments carried out are included in Appendix 3.

5.6 Disclosure Adjustments:

A number of changes have been made to the disclosures in the Statement of Accounts, following completion of the audit process. These include two additional notes; Note 12 providing details of the Council's accounting treatment for schools and Note 31 providing a breakdown of Other Long Term Liabilities.

The disclosures for the following notes have also been significantly enhanced and extended following the audit process;

- o Note 4: Critical Judgements in Applying Accounting Policies,
- o Note 5: Assumptions made about the future and other major sources of estimation uncertainty, and
- o Note 43: Contingent Liabilities

OTHER OPTIONS CONSIDERED

6.1 Not Applicable

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Martyn Marples (Director of Finance and Procurement)
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For more information contact: Background papers: List of appendices:	Chloe Kenny, Head of Corporate Finance, 01332 643369 e-mail: chloe.kenny@derby.gov.uk None Appendix 1 – Implications Appendix 2 – Final Statement of Accounts 2010/11 Appendix 3 – Schedule of adjustments Appendix 4 – Letter of Representation Appendix 5 – Capital Financing Determinations 2010/11
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IMPLICATIONS

Financial

- 1.1 As detailed in the report.

Legal

- 2.1 The Council is required to prepare its accounts in accordance with proper practices under the Accounts and Audit Regulations 2003 (as amended).

The Council is also required to comply with the International Standard on Auditing (UK & Ireland), (ISA 580), 'Management Representations' and the Local Government Accounting Code of Practice (issued by CIPFA).

Personnel

- 3.1 None directly arising

Equalities Impact

- 4.1 None directly arising

Health and Safety

- 5.1 None directly arising

Carbon commitment

- 6.1 None directly arising

Value for money

- 7.1 None directly arising

Corporate objectives and priorities for change

- 8.1 The areas that are to be subject to external audit or inspection are generally relevant to delivery of corporate objectives and priorities.

FINAL STATEMENT OF ACCOUNTS 2010/11

Final Statement of Accounts attached as a separate document.

Statement of Accounts 2010/11
Changes post Audit and Accounts Committee 30th June 2011

Comprehensive Income and Expenditure Account

	Net Expenditure 30 June 2011 £000	Changes £000	Revised Net Expenditure £000
Central Services to the Public	12,482	(1,589)	10,893
Cultural, Environmental, Regulatory and Planning Services	51,332	2,776	54,108
Education and Children's Services	66,066	13,708	79,774
Highways and Transport Services	18,473	409	18,882
Local Authority Housing (HRA)	155,318	9,736	165,054
Other Housing Services	18,707	2,328	21,035
Adult Social Care	57,132	804	57,936
Corporate and Democratic core	8,481	40	8,521
Non-Distributed Costs	(37,503)	(7,390)	(44,893)
Net Cost of Services	350,488	20,822	371,310
Other Operating Expenditure	10,112	937	11,049
Financing and Investment Income and Expenditure	26,742	0	26,742
Taxation and Non-Specific Grant Income	(267,059)	270	(266,789)
(Surplus) / Deficit on Provision of Services	120,283	22,029	142,312
(Surplus) / Deficit on Revaluation of Property, Plant and Equipment Assets	(140,925)	86,479	(54,446)
Actuarial (gains)/losses on pension assets/liabilities	(41,986)	0	(41,986)
Restatement of Fixed Assets	785	0	785
Deficit For the Year	(61,843)	108,508	46,665

The changes to the Net Cost of Services lines are in relation to:-

- (£1,589k) Central Services to the Public
 - (£2,095k) Correction to classification of Housing Benefit and Council Tax
Benefit between Central Services and Other Housing Services
 - £506k Correction to recharges from Non-Distributed Costs
 - (£1,589k) Total

- £2,776k Cultural, Environmental, Regulatory and Planning Services

£659k	Corrections to Depreciation Charges
£30k	Corrections to debtors
£2,087k	Correction to recharges from Non-Distributed Costs
£2,776k	Total

- £13,708k Education and Children's Services

£2,140k	Corrections to Depreciation Charges
£4,175k	Changes to depreciation charge (current year) in relation to Foundation Schools
(£3,598k)	Corrections to impairment charges in relation to Foundation Schools
£7,878k	Impairment of Academy School
£3,113k	Correction to recharges from Non-Distributed Costs
13,708k	Total

- £409k Highways and Transport Services

(£85k)	Corrections to Depreciation Charges
£494k	Correction to recharges from Non-Distributed Costs
£409k	Total

- £9,736k Local Authority Housing (HRA)

(£23k)	Corrections to Depreciation Charges
£9,759k	Impairment of Council Dwellings
£9,736k	Total

- £2,328k Other Housing Services

£2,095k	Correction to classification of Housing Benefit and Council Tax Benefit between Central Services and Other Housing Services
(£656k)	Correction to Housing Benefits debtors
£693k	Correction to Housing Benefits creditors
(£141k)	Correction of misclassification of Additions as Revenue Expenditure Funded from Capital Under Statute
£337k	Correction to recharges from Non-Distributed Costs
£2,328k	Total

- £804k Adult Social Care

(£9k)	Corrections to Depreciation Charges
£813k	Correction to recharges from Non-Distributed Costs
£804k	Total

- £40k Corporate and Democratic Core

£40k	Correction to recharges from Non-Distributed Costs
£40k	Total

- (£7,390k) Non Distributed Costs

<u>(£7,390k)</u>	Correction to recharges from Non-Distributed Costs
<u>(£7,390k)</u>	Total

- £937k Other Operating Expenditure

<u>£937k</u>	Correction to Assets Held for Sale for assets disposed of in year
<u>£937k</u>	Total

- £270k Taxation and Non-Specific Grant Income

<u>£270k</u>	Correction to classification of s106 contributions as Receipts in Advance
<u>£270k</u>	Total

- £86,479k (Surplus) / Deficit on Revaluation of Property, Plant and Equipment Assets

<u>£66,732k</u>	Changes to revaluations in relation to Foundation Schools
<u>£19,747k</u>	Impairment of Academy School
<u>£86,479k</u>	Total

Balance Sheet

	30 June 2011 Audit and Accounts £000's	Changes £000's	Final 2010/11 Statement £000's
Long Term Assets			
Property, Plant and Equipment	1,153,651	(57,244)	1,096,407
Investment Property	2,932	0	2,932
Intangible Assets	137	0	137
Long Term Investments	0	0	0
Long Term Debtors	8,696	110	8,806
Total long term assets	1,165,416	(57,134)	1,108,282
Current Assets			
Short Term Investments	3,767	0	3,767
Assets Held for Sale	6,434	(937)	5,497
Inventories	592	0	592
Short Term Debtors	47,548	516	48,064
Cash and Cash Equivalents	66,986	0	66,986
Total Current Assets	125,327	(421)	124,906
Current Liabilities			
Bank Overdrafts	(8,350)	0	(8,350)
Short Term Borrowing	0	0	0
Short Term Finance Lease Liabilities	(2,177)	(502)	(2,679)
Short Term Creditors	(73,080)	(693)	(73,773)
Provisions	(4,034)	0	(4,034)
Total Current Liabilities	(87,641)	(1,195)	(88,836)
Long Term Liabilities			
Long Term Finance Lease Liabilities	(45,163)	502	(44,661)
Provisions	(627)	0	(627)
Long Term Borrowing	(267,901)	0	(267,901)
Other Long Term Liabilities	(252,668)	0	(252,668)
Capital Grants Receipts in Advance	(20,321)	(270)	(20,591)
Total long term Liabilities	(586,680)	232	(586,448)
NET ASSETS	616,422	(58,518)	557,904
Represented by:			
Usable Reserves	(111,346)	337	(111,009)
Unusable Reserves	(505,076)	58,181	(446,895)
TOTAL RESERVES	(616,422)	58,518	(557,904)

The details of the adjustments within the assets and liabilities on the balance sheet are below:-

- (£57,244k) Property, Plant and Equipment

(£17,319k)	Changes to depreciation charge (current and prior years) in relation to Foundation Schools
(£27,625k)	Impairment of Academy School
(£9,759k)	Impairment of Council Dwellings
(£2,682k)	Corrections to Depreciation Charges
£141k	Correction of misclassification of Additions as Revenue Expenditure Funded from Capital Under Statute
<u>(£57,244k)</u>	Total

- £110k Long Term Debtors

<u>£110k</u>	Correction to age profile of debtors
<u>£110k</u>	Total

- (£937k) Assets Held for Sale

<u>(£937k)</u>	Correction to Assets Held for Sale for assets disposed of in year
<u>(£937k)</u>	Total

- £516k Short Term Debtors

£656k	Correction to Housing Benefits debtors
(£110k)	Correction to age profile of debtors
(£30k)	Corrections to debtors
<u>£516k</u>	Total

- (£502k) Short Term Finance Lease Liabilities

<u>(£502k)</u>	Correction for age profile of finance lease liabilities
<u>(£502k)</u>	Total

- (£693k) Short Term Creditors

<u>(£693k)</u>	Correction to Housing Benefits creditors
<u>(£693k)</u>	Total

- £502k Long Term Finance Lease Liabilities

<u>£502k</u>	Correction for age profile of finance lease liabilities
<u>£502k</u>	Total

- (£270k) Capital Grants Receipts in Advance

(£270k)	Correction to classification of s106 contributions as Receipts in Advance
<u>(£270k)</u>	Total

- £337k Usable Reserves

(£656k)	Correction to Housing Benefits debtors
£693k	Correction to Housing Benefits creditors
£30k	Corrections to debtors
£270k	Correction to classification of s106 contributions as Receipts in Advance
<u>£337k</u>	Total

- £58,181k Unusable Reserves

£17,319k	Changes to depreciation charge (current and prior years) in relation to Foundation Schools
£27,625k	Impairment of Academy School
£9,759k	Impairment of Council Dwellings
£2,682k	Corrections to Depreciation Charges
(£141k)	Correction of misclassification of Additions as Revenue Expenditure Funded from Capital Under Statute
£937k	Correction to Assets Held for Sale for assets disposed of in year
<u>£58,181k</u>	Total

{**Prepare on client letterhead**}

Our Ref

Your Ref

Grant Thornton UK LLP
Enterprise House
115 Edmund Street
BIRMINGHAM
B3 2HJ

27 September 2011

Dear Sirs

**Derby City Council
Statement of Accounts for the Year Ended 31 March 2011**

This representation letter is provided in connection with the audit of the statement of accounts of Derby City Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with International Financial Reporting Standards.

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers and members with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above statement of accounts.

Statement of Accounts

- i We have fulfilled our responsibilities for the preparation of the statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the statement of accounts give a true and fair view of the financial position of the Council and the Group in accordance therewith. All references to the Council includes reference to members of the Group where they are material in relation to the Group accounts.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the statement of accounts.
- iii We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the statement of accounts are soundly based, in accordance with the Code, and adequately disclosed in the statement of accounts. There are no further material judgements that need to be disclosed.

- vi The split of the Unitary Charge for the Grouped Schools and Street Lighting PFI schemes have been determined using appropriate modeling based on our best estimate of the charges for capital, service and lifecycle costs from the Operator's respective models.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- ix All events subsequent to the date of the statement of accounts and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- x There are no unadjusted misstatements that were brought to our attention through the course of the audit, and the statement of accounts are free of material misstatements, including omissions.
- xi We are not aware of any irregularities, including fraud, involving management or employees of the Council. We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the Council suffering significant penalties, other loss or affecting the statement of accounts. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice.
- xii The Council has complied with all aspects of contractual agreements that could have a material effect on the statement of accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the statement of accounts in the event of non-compliance.
- xiii Except as stated in the statement of accounts:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council have been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure
- xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the statement of accounts.
- xv We believe that the Council's statement of accounts should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the statement of accounts.

Information Provided

- xvi We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

- xvii We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- xviii We have communicated to you all deficiencies in internal control of which management is aware.
- xix All transactions have been recorded in the accounting records and are reflected in the statement of accounts.
- xx We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the statement of accounts.
- xxi We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by employees, former employees, analysts, regulators or others.
- xxii We have disclosed to you the likely outcome of litigation or uncertain situations, which have been disclosed in the statement of accounts where appropriate.
- xxiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing statement of accounts.
- xxiv We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Other statements

- xxv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Audit and Accounts Committee at its meeting on 29 September 2011.

Signed on behalf of Derby City Council.

Name	Name.....
Position	Position.....
Date.....	Date.....

(The Chief Executive and the Strategic Director of Resources should sign letter)

CAPITAL FINANCING DETERMINATIONS 2010/11

The following determinations are made under the Local Government and Housing Act 1989 and Local Government Act 2003.

Determination	Section of Act	Amount
		£
1. Expenditure for capital purposes		
(a) Use of credit approvals	S56 (2)	3,423,958
(b) Usable capital receipts	S60 (2)	3,602,593
(c) Grants and outside contributions	S42 (2)(g)	43,583,001
2. Minimum Revenue Provision		
Set aside to meet credit liabilities	S63 (1)	11,535,000
3. Capitalisation Direction	16(2)(b) & 20	0

In accordance with 6 June 2006 Cabinet report recommendation 2.1 revenue contributions have been substituted with other funds, where possible, excluding the ring fenced HRA and Education Foundation Schools and capitalised maintenance.