

## **Audit Committee**

**29 July 2013**



## **Statement of Accounts for the year ended 31 March 2013**

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**Don McLure, Corporate Director Resources**

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### **Purpose of the Report**

- 1 To present to Members the Statement of Accounts for the year ended 31 March 2013 and raise any significant issues arising from the accounts.

### **Background**

- 2 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June 2013, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 28 June 2013.
- 3 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 4 The Statement of Accounts is currently subject to audit by Mazars LLP. The audit of the accounts is ongoing. On completion, the Auditor's report will be incorporated into the published version of the document.
- 5 The attached Statement of Accounts was available for inspection by the public from 1 July 2013 to 26 July 2013 in line with the Regulations and has been published on our website.

### **Statement of Accounts**

- 6 The Statement of Accounts for the financial year 2012/13 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2011 and the 'Code of Practice on Local Authority Accounting 2012/13' (the Code) as

published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 7 The Code is based on approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this Code of Practice. Explanatory notes are included in the document to assist in the interpretation of the accounts, which unfortunately are unavoidably technical and complex.
- 8 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement.

### **Key information from the Statement of Accounts**

- 9 Page numbers used in this report refer to the page numbers on the Statement of Accounts document and not those on the full pack of reports.
- 10 There are six core statements that provide fundamental information on the financial activities and position of the Council:
  - Movement in Reserves Statement (page 42)
  - Comprehensive Income and Expenditure Account (page 44)
  - Balance Sheet (page 45)
  - Cash Flow Statement (page 46)
  - Housing Revenue Account (page 119) and
  - Collection Fund (page 124).
- 11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 130) for which the Council is the Administering Authority.
- 12 The Statement of Accounts shows that the Council's 'net worth' has fallen in 2012/13 by £131.417m to £440.362m. This is due, in the main, to an increase in pension scheme liabilities for its employees as calculated by the Pension Fund's Actuary under International Accounting Standard (IAS) 19. Although the benefits are not payable until the employees retire, the Council has a commitment to make the payments which it must disclose at the time the employees earn their future entitlement.
- 13 The Council has increased its usable reserves during 2012/13.
  - a) The general reserve has increased by £2.536m to £24.410m. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
  - b) Earmarked Reserves have increased by £5.449m to £105.874m. Earmarked reserves are held for specific future purposes.

- 14 The HRA Subsidy System was abolished on 31 March 2012 and replaced by a new system of self-financing for Council Housing. Under the new system each local authority keeps the money raised locally from rents and uses it to run their stock in return for a one-off reallocation of housing debt. An amount of £52.891m was paid to the Secretary of State in 2011/12 to allow the Council to leave the HRA Subsidy System
- 15 Under the new self-financing arrangements, the Council prepared its first 30 year HRA Business Plan for the period beginning 2012/13. This plan has been rolled forward to produce the four year Medium Term Financial Plan which was approved by Council on 20 February 2013. This shows that over a 30 year period, the additional debt allocated to the Council can be sustained within the Business Plan and is repaid towards the end of the period.
- 16 The Pension Fund accounts show that its net assets as at 31 March 2013 have increased by £196.670m to £2,085.556m. Although there was a withdrawal of £5.721m as a result of payments to pensioners exceeding the contributions received, there was a £202.391m return on the Pension Fund's investments. Further information on the Pension Fund is contained within the Pension Fund's Annual Report, which will be published following the approval of the Accounts.

### **Audit Progress Report**

- 17 The External Auditor, Mazars LLP have not issued an Interim Governance Report for 2012/13. However, they have noted two deficiencies in internal control that were reported to this committee in May 2013 in their report 'Audit Progress Report'. These were;
  - journals: the lack of authorisation of journals and the failure to retain supporting documentation has been raised in previous years. Officers have agreed to authorise all journals with a value greater than £1m and to retain supporting documentation where possible within Oracle prior to upload into the ledger; or to retain outside Oracle if not. Compliance with this will be measured during the Audit of the Statement of Accounts.
  - bank reconciliations: the failure to routinely prepare timely bank reconciliations from May to December 2012 was also mentioned by Mazars LLP. These reconciliations have now been completed and the April to June reconciliation is being completed.

### **Bank Accounts and Bank Reconciliations**

- 18 During 2012/13, the number of bank accounts held by the County Council has continued to be rationalised. In January 2012 it was reported that 18 bank accounts of the 26 brought from the former district councils remained. The plan was to close 11 of these accounts by the

end of March 2012. This was achieved and only the 7 planned for closure in September 2012 remained. These were closed on 15 October 2012.

- 19 In the current year, bank reconciliations are to be completed for the following accounts:
- a) County Fund Account - reconciliations have now been completed to 31 March and the April to June reconciliation is currently in progress
  - b) Income Collection Account – reconciliations have been completed for 31 March and in the current year to 30 June 2013.

### **Audit of Accounts**

- 20 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Annual Governance Report detailing their comments and recommendation for improvements, based on the position at 31 March 2013.
- 21 An Action Plan will be presented to Members designed to address the Auditor's recommendations at the conclusion of the Audit.

### **Recommendation**

- 22 It is recommended that the Audit Committee:
- a. consider the attached Statement of Accounts for the County Council for the financial year ended 31 March 2013;
  - b. note the progress on the rationalisation of bank accounts and the current position on bank reconciliations; and
  - c. note the update on the Auditor's recommendations in the Annual Governance Report.

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**Appendix 1: Implications**

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**Finance**

This report details the financial position of the Council as at 31 March 2013.

**Staffing -**

None

**Risk -**

None

**Equality and Diversity -**

None

**Accommodation -**

None

**Crime and Disorder -**

None

**Human Rights -**

None

**Consultation -**

None

**Procurement -**

None

**Disability -**

None

**Legal Implications -**

None

## Appendix 2: Statement of Accounts - Summary and Explanation

| Item   | Pages     | Explanation of Purpose and Content  |
|--|-----------|---|
| Explanatory Foreword                                   | 3 - 39    | Summary of the most significant matters reported in the accounts, and the overall financial position of the Council.  |
| Independent Auditor's Report to Durham County Council  | 40 - 41   | Once the Audit is completed the Auditor's report will be included.  |
| <b>Durham County Council Core Financial Statements</b> |           |   |
| Movement in Reserves Statement                         | 42 – 43   | This statement shows the movement in the year on the different reserves held by the Council analysed into 'usable' reserves and other reserves  |
| Comprehensive Income and Expenditure Account (CIES)    | 44        | This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.   |
| Balance Sheet  | 45        | The Balance Sheet shows the value as at the Balance Sheet date (31 March 2013) of the assets and liabilities recognised by the Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Council.  |
| Cash Flow Statement                                    | 46        | The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.   |
| Notes to the Core Financial Statements                 | 47 - 118  | The notes are important in the presentation of a true and fair view. They aim to assist in understanding by presenting information about the basis of preparation of the core financial statements; by disclosing information required by the Code that is not presented elsewhere; and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts and shows the policies and procedures adopted in compiling the Accounts.                           |
| <b>The Housing Revenue Account (HRA)</b>               | 119 - 123 | The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement. |

| <b>Item</b>  | <b>Pages</b> | <b>Explanation of Purpose and Content</b>   |
|--|--------------|---|
| <b>Collection Fund</b>   | 124 - 129    | The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the Council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. |
| <b>Durham County Council Pension Fund Accounts</b>                 | 130 – 162    | Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2013. Following the Accounts are notes providing further information.   |
| <b>Statement of Responsibilities for the Statement of Accounts</b> | 163          | Sets out the responsibilities of the Council and the Corporate Director Resources for the Statement of Accounts.  |
| <b>Annual Governance Statement</b>                                 | 164 - 174    | Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.   |
| <b>Glossary of Terms used in the Accounts</b>                      | 175 - 186    | To help the reader understand terminology used in the Statement of Accounts.  |