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**Report to Special Council**

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**Date of Meeting: 23 June 2010**

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**Subject: DRAFT STATEMENT OF ACCOUNTS 2009/10**

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**Report by: Finance Manager**

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**1.0 Purpose**

- 1.1. The Council is required by law to prepare a statement of accounts in accordance with 'proper practices' which set out its financial position at the end of each financial year. This is defined as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom prepared by the CIPFA/LASAAC Joint Committee. The Code of Practice is recognised by the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 1.2. The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'present fairly' the financial position and transactions of a local authority. The SORP is reviewed continuously and updated annually. The substantive change introduced in 2009/10 relates to accounting requirements for assets acquired under Private Finance Initiative (PFI) arrangements. The Council's three new secondary schools are now recognised on the Council's Balance Sheet as fixed assets, along with a liability for the financing provided by the PFI operator.
- 1.3. This will be the last year in which the accounts are prepared in accordance with the Code of Practice in line with the SORP. From 2010/11 and future years the Code will be based on International Financial Reporting Standards within a framework of the Government Financial Reporting Manual (FRoM)
- 1.4. The Council is legally obliged to complete the draft accounts and submit them by 30<sup>th</sup> June to the Controller of Audit so that they can be scrutinised by the appointed external auditor for accuracy and completeness. The draft accounts continue to be finalised for audit. The current draft version has been circulated to members rooms.
- 1.5. The annual assurance statement by internal audit is also included for noting.

**2.0 Recommendations**

- 2.1. It is recommended that the Council note the 2009/10 Draft Statement of Accounts and agree to their submission to the Controller of Audit.
- 2.2. It is recommended that the Council note the Annual Assurance Statement

### 3.0 Considerations

- 3.1. The accounts have been prepared in accordance with proper practices as set out in the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice* (the SORP). This report highlights a few of the salient points contained within the draft accounts.
- 3.2. The General Fund achieved a surplus in the year of £2.233m, which, when added to the cumulative reserve brought forward from the previous year, results in a balance of £7.764m as at 31st March 2010. As in previous years, a substantial proportion of this accumulated reserve is earmarked for specific purposes, which can be summarised as follows:

Devolved Management within Schools	£0.235m
Secondary Schools PPP	£1.656m
Service Improvement Contract	£0.815m
Implementation of Single Status	£1.769m
Modernising Government	£0.164m
Zero Waste Fund	£0.134m
Adult Care carry forward scheme	£0.059m
Homeless Assessment Centre	£0.160m
<b>Total</b>	<b>£4.992m</b>

After allowing for these sums, the un-earmarked reserve as at March 2010 stands at £2.772m. This is an improvement of £719k on the sum of £2.053m forecast at the April meeting of the Scrutiny Committee, and encouragingly now exceeds the minimum recommended sum of £2.4m contained within the approved Finance Strategy 2010-2013.

The movement of £719k since last forecast is due to a number of factors, but some of the larger variances were:

Increased subsidy due following finalisation of Housing Benefit claim	£239k
Reduction in Homeless expenditure due to less than expected private lets	£189k
Reduction in Roads expenditure due to higher level of capital works	£143k
Improvement in Waste operations	£107k
Additional distribution of NDRI from national pool at year-end	£163k

- 3.3 The Housing Revenue Account achieved a surplus within the year of £771k. In accordance with the Business Plan for the Clackmannanshire Housing Stock, a sum of £2.561m has been applied from reserves in 2009/10. The outcome of these results are that the opening housing reserve balance of £6.052m is reduced to £4.262m as at 31st March 2010. The surplus forecast at the April meeting of Scrutiny Committee was £425k. The improvement in this outcome is down to two main factors:

Distribution of Property Contracts surpluses attributable to Housing	£190k
Reduction in requirement to increase bad debt provision	£100k

- 3.4 The Council's property assets were revalued as at 1st April 2009, and due to the current economic climate, this has produced mixed results. The value of a number of assets have increased and we now hold a revaluation reserve of £30.2m. Conversely, a number of assets record reductions in value totalling £27.0m and these impairments due to a general fall in prices, are reflected within the Income and Expenditure Account against the relevant services. They have then been reversed out within the Statement of Movement in General Fund Balance to the Capital Adjustment Account to ensure no impact on Council tax or Housing rent payer.
- 3.5 As a result of the latest valuation of our Pension accounts in accordance with Financial Reporting Standard 17 (FRS17), we have witnessed a significant deterioration in our Balance Sheet position, with our net liability now standing at £105.0m compared to £46.3m at March 2009. This is due to the impact of unfavourable financial assumptions coupled with stronger post retirement mortality assumptions, which serve to outweigh the more favourable asset assumptions over the year. Again, it should be noted that these results do not have a direct impact on Council tax or Housing rent payers in the year.
- 3.6 The Council's two significant trading accounts again achieved comfortable surpluses in the year totalling £879k and continue to meet their statutory requirement to break-even over a three-year period.
- 3.7 As mentioned at paragraph 1.2, the accounts this year now incorporate our three new secondary schools acquired under the PPP arrangement in accordance with revised accounting standards. The schools have been brought on to the Council's fixed assets initially as per the contractors operator model at a value of £63.2m. The Council's upfront payments of £16.3m are now treated as long term borrowing as per statutory guidance introduced by the Government in Finance Circular 04/2010, with the balance of £46.9m recorded as a finance lease liability.

### 3.8 **Conclusion**

The results for the year an exceptional achievement given the financial pressures the Council has faced during 2009/10. Whilst demand-led pressures remain within certain service areas, senior management across the Council are to be commended for the tight control they have exerted throughout the year to manage those pressures and keep overall spend within budget.

It has been recognised for a number of years that the Council has operated with un-earmarked reserves that have been somewhat below the minimum recommended levels. The surplus achieved in the current year together with the approved budget allocation of £1m in 2009/10 as a contribution towards reserves means that the Council have achieved their target of exceeding the recommended un-earmarked reserve level approved in the recent Finance Strategy 2010-2013. This places the Council in a position of greater strength as it faces the challenges of public sector reductions in spending in the coming years.

## 4.0 **Sustainability Implications**

- 4.1. Not applicable

## 5.0 **Resource Implications**

- 5.1. *Financial Details*

5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes

5.4. *Staffing*

## 6.0 Exempt Reports

6.1. Is this report exempt? Yes  (please detail the reasons for exemption below) No

## 7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities 2008 - 2011** (Please double click on the check box )

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) **Council Policies** (Please detail)

## 8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?  
Yes  No

## 9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## 10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Annual Assurance Statement

### 11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

**Draft Statement of Accounts 2009/10**

#### Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Martin Dunsmore	Accounting & Budgeting Manager	2041

#### Approved by

NAME	DESIGNATION	SIGNATURE
Susan Mackay	Finance Manager	Signed: S Mackay
Angela Leitch	Chief Executive	Signed: A Leitch



## **Annual Assurance Statement**

### **1. INTRODUCTION**

- 1.1 The purpose of this report is to provide an independent assurance statement on the effectiveness of the financial and non financial internal controls operating within Clackmannanshire Council in the period April 2009 to March 2010.
- 1.2 The provision of an Annual Report by the Senior Auditor is required under the Council's Financial Regulations and by CIPFA Code of Practice for Internal Audit in Local Government within the United Kingdom ("CIPFA Code of Practice").
- 1.3 In addition, CIPFA Code of Practice for Local Authority Accounting 2002 requires that the Council makes a Statement on the System of Internal Financial Control to be included within the Annual Accounts. This Annual Report forms part of the process, on which the Section 95 Officer relies, to sign off the Statement on the System of Internal Financial Control.
- 1.4 This Annual Report also includes an overview of the work undertaken by Internal Audit in 2009-10, on which the assurance statement is based.

### **2. AUDIT OPINION AND ASSURANCE STATEMENT**

#### **Responsibilities for Internal Control**

- 2.1 It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system.
- 2.2 Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.
- 2.3 Internal control is defined as "the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance" regarding the achievement of one or more of the following:
  - the economic and efficient use of resources,
  - the accomplishment of established objectives and goals for operations or plans,
  - compliance with policies, plans, procedures, laws, regulations and contracts,
  - the reliability and integrity of information.
- 2.4 The main objectives of the Council's internal control systems are:
  - To ensure adherence to management policies and directives in order to achieve the organisation's objectives,
  - To safeguard assets,

- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records,
- To ensure compliance with statutory requirements.

**Internal Audit Annual Plan and Risk Assessment**

- 2.5 To form an opinion on the Council's control environment, Internal Audit prepares an Annual Plan which incorporates the audits to be completed during the financial year. The audits in this plan are selected with a view to determining whether the risks facing the key corporate and service objectives are being adequately managed and financial and non financial controls are operating.
- 2.6 In determining and assessing the risks facing the Council and services, different sources are relied on, including :-
- Corporate and Service Risk Registers,
  - Balance Scorecard and Performance Indicators
  - Audit Scotland Priorities and Risks Framework,
  - Reports issued by the Council's external auditors, Grant Thornton and other review agencies
- 2.7 Each audit is undertaken on a risk basis and the testing undertaken is focused on the main risks being faced.

**Basis of Assurance**

- 2.8 In forming my opinion on the Council's control environment, I have relied on different sources, including:
- The audit work undertaken by Internal Audit during the year to 31 March 2010,
  - Progress made by management in the implementation of Internal Audit recommendations,
  - The assessment of risk completed during the preparation of the Annual Plan,
  - Reports issued by the Council's external auditors, Grant Thornton and other review agencies,
  - High level review of the adequacy and effectiveness of the Council's internal control as they relate to governance, risk management and performance monitoring arrangements.
- 2.9 It is my opinion, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2010.

S Mackay

31 MAY 2010

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**Senior Auditor**

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**Date**