

**CARLISLE
CITY COUNCIL**



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AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 16 April 2012

Title: 2011/12 FINAL ACCOUNTS PROCESS

Report of: Director of Resources

Report reference: RD 98/11

Summary:

This report provides information regarding the 2011/12 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed. The 2011 Code of Practice on Local Authority Accounting (The Code) has not introduced any significant changes to the way authorities prepare their accounts as in previous years, but does require Heritage Assets to be included in the accounts for the first time. This report also includes the revised Accounting Policies associated with Heritage Assets which are now based on those prescribed in the 2011 Code of Practice and tailored to the specific requirements of the Council.

Recommendations:

Members are asked to note the report.

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CITY OF CARLISLE

To: The Audit Committee
16 April 2012

RD 98/11

2011/12 FINAL ACCOUNTS PROCESS

1 INTRODUCTION

- 1.1 Following the certification process by the Director of Resources at the end of June, the Audit Commission will commence its audit of the Accounts, which must be completed by 30 September. The Audit Commission will then produce its Annual Governance Report. This report, which summarises the audit work undertaken, conclusions reached and any subsequent recommendations, will be considered by the Audit Committee at its September meeting and will be followed by formal approval. The Director of Resources may provide a response report to that same meeting.
- 1.2 The Auditors will issue their Audit Certificate and formal opinion on the accounts once the Audit Committee has approved the Governance Report that will be received at the end of the process and the re-certification of the accounts by the Director of Resources. The Accounts must then be formally approved by the Audit Committee and published. They will be available in hard copy and on the Council's website.

2 Accounting Policies

- 2.1 The Accounting Policies brought to this committee in January 2012 were based on the draft Code of Practice. However, since then these have been reviewed further and tailored more to the Council's requirements, in particular around heritage assets. Members are asked to consider the revised accounting policies for Heritage assets as outlined in **Appendix A** to provide the basis for the preparation of the 2011/12 Accounts.

3. IMPROVEMENTS

- 3.1 The 2010/11 Annual Governance Report considered by the Audit Committee on 27 September 2011 acknowledged continuing significant improvements in the final accounts process compared to previous years. However it also set out six recommendations and progress against these is shown at **Appendix B**. Also included are the main risks that were identified in the Audit Opinion Plan that was considered by this Committee in January.

Work has already commenced to ensure that these issues are addressed prior to the production of the 2011/12 Accounts. Improvements were made in 2010/11 and the requirements of the Financial Reporting Standards are under continuous review.

4. PROGRESS ON 2011/12 CLOSEDOWN

- 4.1 Training sessions for staff took place on 21st March and 14 members of staff attended. They were advised of the key deadlines and requirements that they had to fulfil to enable the preparation of the accounts.
- 4.2 CIPFA have also issued a new LAAP bulletin on the closure of 2011/12 accounts and this is currently being reviewed to ensure all required changes and salient points are picked up in the closedown process.
- 4.3 Financial Services progress meetings have been arranged internally to monitor the closedown progress and to monitor the detailed timetable of tasks to be completed. Any slippage in this process will be reported regularly to Senior Management Team. Member training will be arranged for June to provide information on the major changes to the accounts and what to look out for when scrutinising the Statements.

5. RECOMMENDATIONS

Members are asked to note the report.

PETER MASON
Director of Resources

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4.0.11 Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The majority of the Council's Heritage Assets are held in the Council's Museum. The Museum has four collections of heritage assets, Archaeology, Social History, Natural History and Fine and Decorative Arts, which are held in support of the primary objective of the Council's Museum, i.e. increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as described below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's primary collections of heritage assets are accounted for as follows.

Museum Collection

The Council's museum collection consists of a significant number of artefacts including pictures, prints, sculptures, china, glass, porcelain, coins, medals archaeological items, as well as significant numbers of social and natural history items, costumes and firearms. Museum collections are reported in the Council's balance sheet at insurance valuation which take into account current market values. These insurance valuations are reviewed on an annual basis as part of the overall insurance premium renewal process.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations being based on appropriate insurance values. The Museum has a defined acquisitions and disposals policy for the period 2010-2015 that sets out the policy for the development of collections at the museum.

Heritage assets will not be subject to depreciation as it is not deemed appropriate to estimate a useful life for the assets held.

Statues, Monuments and other historical buildings

The Council has a number of statues and monuments and other historical buildings that it does not consider that reliable cost or valuation information can be obtained. This is due to the historical significance of such items. However, in some cases, historical cost information is recorded, particularly those that were previously classified as Community assets. Therefore, those items that were previously categorised as Community Assets will be recognised at their historic cost, and those previously not recognised (primarily statues and monuments) will not be recognised on the balance sheet although appropriate disclosures made.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where

doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4.0.18 in this summary of significant accounting policies. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Governance Report Recommendations

Recommendation	Comments
Ensure that when entering into new leases careful consideration is given as to how the lease arrangements are constructed and the potential accounting treatment	Working in conjunction with Legal and Property Services, the accounting treatment of all new leases will be given careful consideration prior to being completed.
Improve the Council's understanding and application of all Code requirements as part of the production of the financial statements.	Financial Reporting Standards will be reviewed in conjunction with the requirements of the Code when preparing the financial statements. Attendance at relevant seminars will continue to assist in the implementation of the Code.
Componentise all assets with gross book value in excess of the Council's set limit where revaluation, enhancement or acquisition of these assets takes place within the accounting period.	The Council's Componentisation Policy will be adhered to when preparing the financial statements and this is now built into the briefing memo issued to Property services for when valuations occur.
Ensure that the Valuer's report makes explicit reference to the impact of in year capital expenditure on individual asset values.	Amendments will be made to the Valuer's report / certificates to include an assessment of in year capital expenditure and the impact on asset valuations
Ensure more robust consideration by the Council of the need to disclose related party transactions in the accounts.	More robust consideration will be given to the declarations provided which will be formally signed off by the Director of Resources
Improve the working papers supporting the segmental reporting note.	This will be addressed as part of the closure of the 2011/12 accounts process

Audit Opinion Plan Risks

Risk Area	Comments
<p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture. For the Council this is likely to include your assets and artefacts at Tullie House Museum. In its 2010/11 accounts the Council disclosed it had nearly £16 million of heritage assets at 1 April 2010. There is a risk the Council may be unable to identify and account for all heritage assets due to the volume of assets and artefacts and the complexity of the valuations.</p>	<p>The implications of the adoption of FRS30 for Heritage Assets will be assessed prior to 1 April and any associated work required will be undertaken to identify all Heritage Assets and ensure appropriate valuation information is collated.</p>
<p>The Council is required to ensure the value of its investment properties reflects market conditions at the balance sheet date. The value of the Council investment properties is around £102 million but a number of assets, with a value of over £81 million, have not been re-valued since 31 March 2009. There is a risk the valuation reported in the financial statements will be materially misstated due to changing market conditions.</p>	<p>The valuation report for 2011/12 will be collated to ensure all investment properties are appropriately considered for valuation purposes and are supported by relevant commentary and evidence to support any changes in value.</p>
<p>The Council is required to produce Whole of Government Accounts (WGA) which are consistent with its main financial statements. As last year, there is a risk that your WGA will double count gross income and gross expenditure meaning that your WGA will be materially misstated.</p>	<p>Work is ongoing to review the allocation of recharges which caused difficulties in the 2010/11 preparation of the WGA return and this review should ensure that gross income and expenditure is not double counted.</p>