

# AUDIT COMMITTEE

5 MARCH 2007

Agenda  
Item

## STATEMENT OF ACCOUNTS 2006/7 – CHANGES IN ACCOUNTING PRACTICE

### Summary of report:

This report provides a summary of changes to accounting practice in respect of the annual statement of accounts that the Authority is required to comply with, in accordance with the Accounts & Audit Regulations 2003, as amended 2006. This includes fundamental changes to how council financial performance is reported and how fixed assets and capital expenditure are accounted for, along with changes to the statement on the system of internal control (SIC).

### Background Papers:

Statement of Recommended Practice (SORP) 2006.  
Audit and Accounts Regulations 2003, amended 2006.

### Recommendations:

1. To note the changes in accounting practice and guidance and the impact of this in respect of the annual statutory statement of accounts.



Signed: .....

Executive Director      Carole Evans

21 February 2007

### Citizen impact

SORP changes are intended to make the accounts more accessible and more inline with UK accounting standards. This should allow citizens to gain a greater understanding of the council's finances.

### Resource and Legal Considerations

Council's must produce annual accounts in line with the Accounts and Audit Regulations 2003, as amended 2006 and in a timely fashion on an annual basis. The SORP is updated on an annual basis.

### Environmental Impact

None relating directly to this report.

### Performance Management and Risk Management Issues

A comprehensive risk assessment is undertaken as part of the annual final accounts process. Part of this identifies changes to rules and regulations and to ensure compliance.

Corporate finance manages the final accounts process through the operation of the final accounts steering group, comprised of senior and technical officers within the council. This is overseen by the Head of Corporate and Strategic Finance.

Understanding of the financial statements and interaction with the general public is becoming more important and greater emphasis is being placed on this in the CPA Use of Resources assessment 2007.

**Equality implications:**

Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public.

**Consultation**

Consultation on the changes has taken place widely within the council, and training and briefing sessions are to be held for both members (Audit Committee will receive a presentation on the main changes at the meeting) and officers.

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**Changes in Accounting Practice / SORP 2006 and restatement of 2005/6 Accounts**

The Statement of Recommended Practice (SORP) 2006 has introduced some major changes to local authority financial statements. These changes are intended to make the financial statements easier to read and bring them more in line with practices in the private sector. These changes include:

- Replacement of the consolidated revenue account with an income and expenditure account and a reconciliation to the general fund – this means that this statement will now conform with UK generally accepted accounting practice (GAAP).
- Replacement of the statement of total movements in reserves with a statement of total recognised gains and losses (STRGL), intended to make this statement more relevant to the movements in the year on the balance sheet. This has also been done so that local authority accounts converge with UK GAAP.
- Removal of the requirement for capital charges in order to comply with UK GAAP
- There is no longer a requirement to have an AMRA (Asset management revenue account), resulting in the charges previously shown within this account being shown on the face of the income and expenditure account and reconciliation to the general fund.

The above changes have no effect on the net budget requirement or council tax.

Due to the changes within SORP 2006 there is a requirement for Walsall to restate the financial statements from 2005/6 to allow for like for like comparison with the 2006/7 accounts. Detailed guidance on the changes is not yet available; however we are working on the restatement now in order to share this with the Audit Commission at an early date to ensure compliance with the new requirements. It is intended this will assist the smooth running of the external audit of the 2006/7 accounts.

**Statement of Internal Control Changes**

The 2006 amendments to the Accounts & Audit Regulations 2003 require the authority to consider the findings of the review of systems of internal control, and to review the effectiveness of internal audit.

Regulation 4 (responsibility for financial management) of the 2003 Regulations was amended in 2006 to require the findings of the review of the effectiveness of the system of internal control to be considered by a committee or relevant body, or by the members of the body meeting as a whole. Whilst Regulation 4 does not require the establishment of an audit committee, such a committee would provide an appropriate means through which to consider the findings of the review. Whilst not a requirement for the 2005/6, the Council initiated this regulation and the review was considered by Audit Committee at their meeting on 29 June 2006.

Regulation 6 (internal audit) of the 2003 Regulations was also amended in 2006 to require relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the relevant body to consider the findings. The regulations suggest that an Audit Committee would provide an appropriate means through which to carry out the review of internal audit as it has a role in monitoring internal audit but is independent from it.

Best practice would be to use an existing committee for considering the findings of a review of both the system of internal control and the effectiveness of internal audit. As such it is proposed that an officer group is set up to undertake these reviews which will then report the findings of that review to Audit Committee for their consideration before approving the SIC and statement of accounts.

A more detailed presentation on the above will be provided at Audit Committee at their meeting on 5 March 2007.