Agenda Item No: 8

STATEMENT OF ACCOUNTS 2014-15

To:	**Audit and Accounts Committee**	
Date:	**24th November 2015**	
From:	**Chief Finance Officer**	
Electoral division(s):	**All**	
Forward Plan ref:	**N/a**	*Key decision:*
Purpose:	**This report presents the formal Statement of Accounts, as part of the Council's approval process, following remedial work to the Council's Asset Under Construction balance.**	
Recommendation:	**The Committee is asked to approve the 2014/15 Statement of Accounts, subject to completion of final testing by PwC.**	

Officer contact:		***Member contact***	
Name:	Chris Malyon	Name:	Cllr. Michael Shellens
Post:	Chief Finance Officer	Portfolio:	Resources and Performance
Email:	chris.malyon@cambridgeshire.gov.uk	Email:	michael.shellens@cambridgeshire.gov.uk
Tel:	01223 699796	Tel:	01480 456555

1. BACKGROUND

1.1 This version of the Statement of Accounts replaces the version that was originally presented to the Committee for approval on the 22 September 2014 prior to further remedial work being required in relation to Assets Under Construction. With this work now completed, the Statement of Accounts now requires this Committee's approval.

2. DEVELOPMENTS SINCE SEPTEMBER

2.1 Assets Under Construction

2.1.1 Assets Under Construction (AUC) relate to the Council's capital assets which are described as 'work-in-progress'. They typically represent projects to construct buildings or infrastructure (i.e. roads/ bridges etc) and are valued on a historical cost basis. This class of assets is referred to as 'non-operational' and are therefore not subject to depreciation. Once work on an AUC is complete, it is transferred to the appropriate category of property, plant and equipment and it then becomes subject to the normal recognition and valuation rules of the respective class of asset. Until recent remedial work, the AUC balance on the Council's Balance Sheet was £189.1m.

2.1.2 The Council doesn't currently have an asset register which records AUC. Instead, AUC are recorded and monitored using spreadsheets and working papers which analyse the in-year movements. PwC therefore initially highlighted this issue as a control deficiency as they were unable to substantially test the majority of this balance during the 2014-15 audit.

2.1.3 As a result of PwC's findings, the finance team undertook an exercise to construct a register based on known live projects. This included ongoing projects at year-end where expenditure should eventually be capitalised. This register provided to PwC covered approximately 25% of the total balance, with the remainder requiring further investigation. A high level analysis was subsequently undertaken which identified that the majority of this balance related to transactions between the periods of 2006-07 and 2010-11. Following this, although a prior period restatement would have been required to address any errors, no further work was deemed to be necessary as discussions with PwC indicated that the issue would be reported as a control weakness which would need addressing going forwards i.e. balances analysed for reclassification.

2.1.4 On the 17th September, PwC advised the Council's finance team that following discussion with their own technical advisors, the remaining balance needed to be explained to an immaterial level before they would be happy to issue an unqualified opinion on the Council's accounts. As a result, PwC and the Council's finance team raised this issue at the Audit and Accounts Committee Chairman's briefing on the 18 September and Committee meeting on the 22 September, and the finance team have been working since then to address this as a matter of urgency.

2.2 Explanation Of Remedial Work Undertaken

2.2.1 The nature and extent of the error related to the accounting recognition of assets only. As such, any subsequent reduction in the value of the Council's assets on its balance sheet as a result of correcting this error, solely related to remedial accounting treatment i.e. there has been no physical loss of assets or construction works, or damage to Council property.

2.2.2 The error occurred for a variety of reasons, including balances never being transferred once a scheme had become operational; residual expenditure remaining in AUC after the transfer of the majority of expenditure for a scheme once it became operational (this comprises small figures, but on lots of schemes); restatement errors; transfer errors; and incorrect treatment of donated assets. These issues were largely caused by the fact that the Council had not recorded AUC on an asset register since 2005-06. From 2006-07 onwards, the working papers for AUC changed format and instead AUC was recorded and monitored using spreadsheets and working papers which only analysed in-year movements. The majority, if not all, of these issues could have been avoided if the asset register from 2005-06 had continued to be maintained.

2.2.3 A significant process of reconciliation and analysis of all live construction projects has shown that live projects (genuine AUC balances) only totalled £36.2m. Therefore correcting entries were needed to address this error. The reconciliation exercise undertaken analysed balances over the last 14 years, in terms of all movements into and out of AUC that made up that balance. This was completed on an individual scheme basis, with schemes split out to the greatest level of detail possible. A data cleansing exercise was also undertaken to ensure that all relative activity for each scheme was included within the same line of the reconciliation. All non-operational schemes were identified and the remaining operational schemes were assigned to assets and analysed to determine why the balance was still recorded within AUC in order to inform where the balance needed to be transferred to.

2.2.4 It should be noted that the Council's current monitoring of AUC and the processes in place in recent years to transfer balances is robust, with all movements in the balance materially correct. For example, the net impact of errors occurring in 2013-14 and 2014-15 is only £0.6m of the total balance, and as such, are not considered to be material. Therefore, the net adjustments made to rectify this error have all been processed as a prior period adjustment. Having completed the work to resolve this error, the Council now has an up to date asset register for AUC which will further consolidate the current robust procedures and ensure that this error does not occur again.

3. AMENDMENTS TO THE FINAL ACCOUNTS

3.1 The tables shown in Appendix 1 summarise the value and nature of transfers that have been made to AUC and how they have been categorised, plus adjustments to the Comprehensive Income and Expenditure Statement and Infrastructure balances.

3.2 Appendix 2 summarises the amendments to the core statements and disclosure notes.

3.3 The table below summarises all the amendments to the Statement of Accounts document submitted at the Audit & Accounts Committee meeting on 22 September 2015:

Section	Page	Detail
Movement in Reserves Statement (MIRS)	28	• Amendments to opening and closing figures in all years as a result of AUC adjustments.
Balance Sheet	30	• Amendments to opening and closing figures in all years as a result of AUC adjustments.
Notes To The Core Financial Statements	34 59-62 71 113	• Note 1 (Accounting Policies) – amendments to policy narrative relating to property, plant and equipment. • Note 12 (Property, Plant & Equipment) - amendments to tables to reflect AUC adjustments. • Note 22 (Unusable Reserves) - changes to opening and closing figures in the Revaluation Reserve and Capital Adjustment Account tables to reflect AUC adjustments. • Note 43 (Prior Period Error) – new note to explain the AUC issue.
Annual Governance Statement	171	• Updated to reflect identification, action and resolution of the AUC issue.

These amendments have been reviewed and agreed by the external auditors. No other changes have been made.

3.4 While all the above changes have been made, it should be noted that PwC are still completing their final few areas of testing and therefore these accounts are subject to any final work which we hope to have completed ahead of the committee meeting.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

4.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

4.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

There are no significant implications within this category.

5.2 Statutory, Risk and Legal Implications

There are no significant implications within this category.

5.3 Equality and Diversity Implications

There are no significant implications within this category.

5.4 Engagement and Consultation Implications

There are no significant implications within this category.

5.5 Localism and Local Member Involvement

There are no significant implications within this category.

5.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Code of Practice 2014-15 (based on IFRS) Statement of Accounts 2013-14. Statement of Accounts working papers. Outturn Integrated Resources & Performance Report for 2014-15	Room 301 Shire Hall, Cambridge

Appendix 1: Comprehensive Income and Expenditure Statement Changes

Transfers to:	Amount £000	Notes
Land and Buildings (L&B)	-111,208	This relates to schools, youth centres, offices, libraries, farms and Grafham Water Centre. There are various reasons why these balances have not been transferred out – including final balances for schemes, expenditure that was never transferred when a scheme became operational and errors in calculations/manual adjustments to AUC.
Infrastructure	10,669	This relates to two erroneous transfers from AUC to Infrastructure. Therefore the value needs transferring back to AUC.
Revenue	-11,345	Expenditure that cannot or should not be capitalised by the Council, e.g. expenditure on IT or equipment. This expenditure should be transferred to the I&E in the year it is incurred, along with any grant funding. A significant proportion of this amount relates to either expenditure undertaken by schools themselves on small projects, such as purchase of IT, or maintenance of schools that has not been transferred to revenue.
Revenue Expenditure Funded by Capital Under Statute (REFCUS)	-42,358	Expenditure on assets that are not owned by the Council, such as Academies. This expenditure should be transferred to the I&E in the year it is incurred.
Revenue - Donated Assets	1,278	Two assets that were erroneously assumed to have been transferred from AUC, whereas they were actually donated.
TOTAL	**-152,964**	

Additional adjustments:	Amount £000	Notes
Land and Buildings		
CIES - Disposals	-133	Relating to assets that have subsequently been disposed since the original transfer should have occurred.
CIES - Impairments	-6,741	Relating to assets that have been impaired through demolition or fire since the original transfer should have occurred.
CIES - Revaluations	-100,054	Relating to assets that have been added separately or subsequently have been revalued since the transfer should have occurred. The revaluations for these assets would not have taken the transfer into account and therefore have been overstated.
CIES - Depreciation	-725	Depreciation that would have been charged if the asset had been transferred at the correct time. This only relates to assets that have not been revalued since the transfer should have been made, as a revaluation clears out any depreciation.
Infrastructure		
CIES - Revaluations	-1,368	Relating to an asset that was only partially transferred out of Infrastructure to L&B and has been subsequently revalued, overstated the revaluation.
TOTAL	**-109,022**	

Appendix 2: Changes to Core Statements and Disclosure Notes

The following table reflects the total impact on the financial statements as a result of these adjustments:

01-Apr-13 £000	01-Apr-13 (Restated) £000	Movement in Reserves Statement	31-Mar-14 £000	31-Mar-14 (Restated) £000	31-Mar-15 £000	31-Mar-15 (Restated) £000	Movement (in all years) £000
732,551	571,105	Unusable Reserves	676,835	515,389	731,833	570,387	**-161,446**
01-Apr-13 £000	**01-Apr-13 (Restated) £000**	**Balance Sheet**	**31-Mar-14 £000**	**31-Mar-14 (Restated) £000**	**31-Mar-15 £000**	**31-Mar-15 (Restated) £000**	**Movement (in all years) £000**
853,158	856,713	Land and buildings	817,196	820,751	1,002,535	1,006,090	**3,555**
635,377	623,339	Infrastructure	665,429	653,391	697,793	685,755	**-12,038**
251,176	98,212	Assets under construction	216,723	63,759	189,132	36,168	**-152,964**
367,983	333,973	Revaluation Reserve	355,390	321,380	466,091	432,081	**-34,010**
815,855	688,419	Capital Adjustment Account	771,286	643,850	834419	706,983	**-127,436**
01-Apr-13 £000	**01-Apr-13 (Restated) £000**	**Property, Plant and Equipment**	**31-Mar-14 £000**	**31-Mar-14 (Restated) £000**	**31-Mar-15 £000**	**31-Mar-15 (Restated) £000**	**Movement (in all years) £000**
1,895,096	1,734,375	Cost at 1-Apr	1,907,154	1,746,433	2,116,672	1,955,951	**-160,721**
-143,483	-144,208	Accumulated Depreciation and Impairment at 1-Apr	-200,608	-201,333	-217,328	-218,053	**-725**
01-Apr-13 £000	**01-Apr-13 (Restated) £000**	**Unusable Reserves**	**31-Mar-14 £000**	**31-Mar-14 (Restated) £000**	**31-Mar-15 £000**	**31-Mar-15 (Restated) £000**	**Movement (in all years) £000**
367,983	333,973	Revaluation Reserve	355,390	321,380	466,091	432,081	**-34,010**
815,855	688,419	Capital Adjustment Account	771,286	643,850	834419	706,983	**-127,436**