

**REPORT TO THE: PERFORMANCE REVIEW & AUDIT COMMITTEE****DATE:**  
20<sup>th</sup> July 2009**REFERENCE:****SUBJECT: Consultation on proposed amendments to the Accounts & Audit Regulations 2005****SUMMARY:**

The proposed changes are to take account of a number of developments that have occurred mainly in relation to financial and governance reporting with the areas for consideration having been divided into two sections. The first section relates to sign off and approval of accounts, the Audit Opinion ("true and fair view"); the Statement of Internal Control and remuneration reporting for senior staff. The second section relates to matters solely regarding Community and Town Councils.

OBJECTIVES		IMPLICATIONS	
Trusted & Respect	√	Operational Risk Management	
More than Emergencies	√	Community Risk Reduction	
Saving Lives, Protecting Communities	√	Training & Development	
Managing within Budget	√	Civil Contingencies	
Improving Efficiency	√	Finance & Procurement	√
Resources to Priorities	√	H.R.	√
Alternative Resources	√	ICT	
Managing People	√	CCMS	
Integrated Management Planning	√	Transport	
Partnership Working	√	Health & Safety	
Effective & Empowered People	√	Premises	
		Sustainability & Environment	
		Welsh Language	
		Legal	
		Governance	√
		Equality & Diversity	

**COMMENTS/OBSERVATIONS ON THE ABOVE OBJECTIVES/IMPLICATIONS:**

The proposed changes will amend the content of the Authority's Statement of Accounts in future years.

**RECOMMENDATIONS:**

That Committee consider the draft response attached.

**BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT:**

Consultation document from Welsh Assembly Government dated May 2009.

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## **Consultation on Possible Amendments to the Accounts and Audit (Wales) Regulations 2005**

### **Background**

The contents of and minimum disclosures in the Annual Statement of Accounts are prescribed by the Accounts and Audit (Wales) Regulations 2005, the Regulations, and by the Code of Practice on Local Authority Accounting in the United Kingdom 2008 (A Statement of Recommended Practice), the SORP.

The SORP, which has legal status, is amended each year to ensure that it meets current United Kingdom Generally Accepted Accounting Practice (UK GAAP). To ensure consistency with the SORP and to reflect any other developments the Regulations also require amendment from time to time. The Welsh Assembly Government are now seeking to make such amendments and have issued a consultation document on its proposals, the consultation period will end on 31 July 2009.

### **The Consultation Document**

The consultation document is split into two sections, the second section deals with matters only applicable to Community and Town Councils and therefore has not been considered in this report.

Section 1 contains proposals in six areas and asks a number of questions on each proposal.

### **The Proposals**

#### **A) “True and Fair” endorsement of accounts and audit opinion**

The current requirement for endorsing Local Authority statutory accounts prepared under the SORP are endorsed, and provision of the audit opinion, is on the basis that they “Present Fairly” the final position of the authority. This is not consistent with UK GAAP or with the endorsement made by central government, other public bodies and in the private sector. UK GAAP requires that accounts are endorsed on a True and Fair basis.

In theory this would require a higher standard of preparation of accounts and a higher level of audit. However, because of past developments in accounting and reporting, in practice this would only amount to a change in terminology.

#### **Proposal A1**

To move to a “True and Fair View” endorsement in 2009/10.

### Questions

- 1) Do you agree that amending regulations should be brought forward to require endorsement of the accounts on a True and Fair basis?
- 2) Do you see any particular reasons for not implementing this change from the financial year 2009/10.

### Recommended Response

This Authority agrees to bringing forward amending regulations to require endorsement of the accounts on a True and Fair basis and can see no reason for not implementing the change from 2009/10.

### **B) Requirement to produce a Governance Statement rather than a Statement of Internal Control**

A Corporate Governance Statement is a more far reaching document than a Statement of Internal Control, good practice is to move to a Corporate Governance statement with the 2008 SORP giving Authorities the choice on which to use. The current Regulations require a Statement of Internal Control to be produced. This Authority has produced an audited Code of Corporate Governance using the CIPFA framework, and has included a statement of assurance that the code has been complied with and is effective in the annual statement of accounts.

### Proposal B1

The requirement to produce a Governance Statement should become mandatory from 2009/10.

### Questions

- 3) Do you support a move from a Statement of Internal Control to a Governance Statement as a formal reporting requirement?

### Proposal B2

If a Governance statement becomes mandatory the, relevant proper practice should be the CIPFA document "Delivering Good Governance in Local Government: A Framework".

### Questions

- 4) Do you have any views on how the requirement to formalise a Governance Statement is achieved and are you content that this should be reported in the annual report and accounts?

### Recommended Response

This Authority supports the move from the “Statement of Internal Control” to a “Code of Corporate Governance” with an annual formal report that the Code remains effective and has been complied with. The Authority agrees that the relevant proper practice should be the CIPFA document “Delivering Good Governance in Local Government: A Framework”. A Code of Corporate Governance should be produced in accordance with the Framework and published. The annual statement of accounts should include a Statement of Assurance showing that the Code has been followed and is effective.

### **C) The process for signing and authorising accounts for issue**

The existing regulations for the authorising of accounts are unclear and open to misinterpretation. The current regulations require the accounts to be approved by 30 June and published by 30 September. It is not a requirement for the accounts to be re approved after audit even if there are changes. Also it is not clear up to what point post balance sheet events should be recognised in the balance sheet or what should happen if the audit is not completed by 30 September.

In this Authority the accounts are approved by 30 June and re approved post audit, before publication. Post balance sheet events are recognised up to 30 June.

### Proposal C1

The situation regarding the process of signing and approving accounts should be clarified This clarification should include: when the statement of accounts is authorised for issue; impact of post balance sheet events and; the resigning and final approval of accounts.

### Questions

- 5) Do you agree that the regulations and subsequent guidance in this area should be improved?
- 6) What are your views on each of the following:
- a) At what stage should the Responsible Finance Officer and local authority body be required to sign and date the final accounts?
  - b) Should the approval process include the possibility of signing and re-signing the statement of accounts where material changes need to be acknowledged after 30 June?

- c) Should the accounts be re-signed anyway at the point at which the accounts are published irrespective of whether material changes have been made?

### Recommended Response

This Authority agrees that the Regulations in respect of the signing and authorising of accounts for issue need to be improved. The authority is of the view that the accounts should be signed and dated by 30 June and irrespective of whether material changes have been made, re signed after audit and before publication. Post Balance sheet events should only be recognised up to 30 June.

### **D) Joint Committees: Amendment to the requirement to use the SORP as a source of accounting practice.**

Currently Joint Committees, irrespective of their financial turnover, are required to prepare fully SORP compliant accounts. This may lead to increased accounting and auditing costs as well as resulting in a disproportionate burden of work on the Joint Committee.

### Proposal

The requirement to use the SORP, irrespective of turnover, as the source of proper practices for Joint Committees should be examined with a view to allowing some flexibility for Joint Committees with a small turnover.

### Questions

- 7) Do you agree that the use of the CIPFA SORP as the source of “accounting practices” for Joint Committees should be reviewed?
- 8) Do you agree that an appropriate source of proper practices for Joint Committees could be the Governance and Accountability for Local Councils in Wales or do you feel there are other sources that could be adopted?
- 9) What are your views on an appropriate threshold below which CIPFA SORP might not be applicable to smaller Joint Committees?

### Recommended Response

This Authority agrees that the requirement for smaller Joint Committees to use the SORP as the source for proper practices should be reviewed. An appropriate alternative source could be the newly drafted code for Governance and

Accountability for Local Councils in Wales if its contents are suitable. It is believed that all Joint Committees should be able to use the SORP, but if their turnover is below a threshold, could elect to use an alternative source. The level of the threshold should be set at the same level as that for Community Councils, currently £1 million.

**E) Increasing Transparency in reporting of the remuneration of senior officers in local government bodies.**

Currently the Authority is required to report the numbers of staff earning over £60,000 per year, in £10,000 bandings. Earnings include gross pay, bonuses, and benefits in kind.

Proposal

To make it a requirement to include in the financial statement a report of the salary, bonuses, additional payments, compensation payments, benefits in kind and pension information for each “senior” employee from 2009/10. The extent and focus of disclosure would be comparable to central government for the most senior and highly paid individuals.

Salary	- Current and previous year
Bonuses	- Current and previous year
Additional Payments	- Sums paid by way of expenses or allowances that are chargeable to income tax
Compensation	- for loss of office
Benefits in kind	- the estimated money value
Pension entitlement	- value of individuals pension benefit at the start of the year, at the end of the year, and projected to normal retirement age.

Question

- 10) Views are invited on whether the proposed extent and focus of remuneration reporting, when presented together, will fulfil the objective of providing a more transparent view of each senior officer’s package of benefits. We also invite comments on whether consultees foresee any barriers or costs to collecting and reporting this information in published annual accounts.

Recommended Response

It is believed that the current disclosure of numbers of staff earning in excess of £60,000 in £10,000 bands gives sufficient information to give a transparent view of benefits packages. To give details of earnings and income for named individuals, whilst possibly not breaching legislative requirements as to disclosure, certainly releases personal sensitive information into the communities that those individuals live and work in.

The “additional payments” requirement is to report expenses that attract income tax, that is, those elements that are in excess of the notional amount set by HMRC. Expenses tend to be recorded in total not with this artificial split and data may be difficult to collect.

We cannot see how the proposals on reporting the pension entitlement of an individual contributes to achieving the overall objective of greater transparency. Such figures could be misleading as there is no recognition in the proposals of the fact that the individual actually makes a contribution to the overall pension benefit. If a pension disclosure is to be made, the more meaningful figure to the taxpayer would be the employers’ contribution to the pension fund.

Additionally, there could well be both a timing and cost issue in obtaining such figures from the Authority’s Actuaries.

#### Question

- 11) Views are invited on how best to define “senior” in the Regulations.
- 12) Views are invited on whether and how to include individuals acting at a senior level whose position may not be as permanent employees but who make decisions.

#### Recommended Response

The definition provided in the Consultation Paper of Head of Paid Service and 1<sup>st</sup> Tier Managers would seem an appropriate definition of senior officer. If the detailed disclosure is to be made then temporary senior employees should be included on the same basis as permanent senior employees. If they are agency staff, then the payment to the Agency could be disclosed.

#### Wider Remuneration Reporting – Proposal and Question

- 13) Do you agree that the bandings for the remuneration for employees earning more than £60,000 be adjusted from £10,000 to £5,000?

#### Recommended Response

This Authority believes that reducing the bands for employees earning more than £60,000 from £10,000 to £5,000 will not add any clarity to the disclosure in the statement of accounts, but will only serve to make the notes longer. It is believed that the bands should remain at £10,000.

**F) General tidy up of redundant references**

Question

- 14) Do you agree that refreshing the 2005 regulations by deleting redundant references would be helpful?

Recommended Response

This Authority supports the refreshing of the 2005 Regulations by deleting redundant references.

**Summary of Recommended Responses**

Question	Response
1 & 2	This Authority agrees to bringing forward amending regulations to require endorsement of the accounts on a True and Fair and can see no reason for not implementing the change from 2009/10.
3 & 4	This Authority supports the move from the “Statement of Internal Control” to a “Code of Corporate Governance” with an annual formal report that the Code remains effective and has been complied with. The Authority agrees that the relevant proper practice should be the CIPFA document “Delivering Good Governance in Local Government: A Framework”. A Code of Corporate Governance should be produced in accordance with the Framework and published. The annual statement of accounts should include a Statement of Assurance showing that the Code has been followed and is effective.
5&6	This Authority agrees that the Regulations in respect of the signing and authorising of accounts for issue need to be improved. The authority is of the view that the accounts should be signed and dated by 30 June and irrespective of whether material changes have been made, re signed after audit and before publication. Post Balance sheet events should only be recognised up to 30 June.
7,8 & 9	This Authority agrees that the requirement for smaller Joint Committees to use the SORP as the source for proper practices should be reviewed. An appropriate alternative source could be the

	<p>newly drafted code for Governance and Accountability for Local Councils in Wales if its contents are suitable. It is believed that all Joint Committees should be able to use the SORP, but if their turnover is below a threshold, could elect to use an alternative source. The level of the threshold should be set at the same level as that for Community Councils, currently £1 million.</p>
10	<p>It is believed that the current disclosure of numbers of staff earning in excess of £60,000 in £10,000 bands gives sufficient information to give a transparent view of benefits packages. To give details of earnings and income for named individuals, whilst possibly not breaching legislative requirements as to disclosure, certainly releases personal sensitive information into the communities that those individuals live and work in.</p> <p>The “additional payments” requirement is to report expenses that attract income tax, that is, those elements that are in excess of the notional amount set by HMRC. Expenses tend to be recorded in total not with this artificial split and data may be difficult to collect.</p> <p>We cannot see how the proposals on reporting the pension entitlement of an individual contributes to achieving the overall objective of greater transparency. Such figures could be misleading as there is no recognition in the proposals of the fact that the individual actually makes a contribution to the overall pension benefit. If a pension disclosure is to be made, the more meaningful figure to the taxpayer would be the employers’ contribution to the pension fund.</p> <p>Additionally, there could well be both a timing and cost issue in obtaining such figures from the Authority’s Actuaries.</p>
11 & 12	<p>The definition provided in the Consultation Paper of Head of Paid Service and 1<sup>st</sup> Tier Managers would seem an appropriate definition of senior officer. If the detailed disclosure is to be made then temporary senior employees should be included on the same basis as permanent senior employees. If they are agency staff, then the payment to the Agency could be disclosed.</p>
13	<p>This Authority believes that reducing the bands for employees earning more than £60,000 from £10,000 to £5,000 will not add any clarity to the disclosure in the statement of accounts, but will only serve to make the notes longer. It is believed that the bands should remain at £10,000.</p>
14	<p>This Authority supports the refreshing of the 2005 Regulations by deleting redundant references.</p>