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Council

13<sup>th</sup> September 2011

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance and Resources) Councillor Duggins

**Director Approving Submission of the report:**

Director of Finance and Legal Services

**Ward(s) affected:**

All

**Title:**

Delegation of Responsibility for Approval of Statement of Accounts and Annual Governance Statement

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**Is this a key decision?**

No

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**Executive Summary:**

The purpose of this report is to give Audit Committee the constitutional power to approve the City Council's Statement of Accounts and Annual Governance Statement on an annual basis. This power currently resides with Council. If approved, this will allow the Audit Committee to approve the final audited statements at its planned meeting on 20<sup>th</sup> September 2011.

**Recommendations:**

Council is recommended to change the constitutional terms of reference for Audit Committee to allow it to approve the City Council's Statement of Accounts and Annual Governance Statement.

**List of Appendices included:**

None

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

No

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

Yes

**Report title:**

Delegation of Responsibility for Approval of Statement of Accounts and Annual Governance Statement

**1. Context (or background)**

The City Council's Constitution currently requires the Council to approve the annual Statement of Accounts and Annual Governance Statement. In recent years the City Council's Audit Committee has become the key body in respect of understanding, analysing and discussing the content of these statements and Audit Committee members have received training to allow them to undertake these duties. Subsequent consideration by full Council has been undertaken only because the Audit Committee within its terms of reference is not empowered currently to approve the Statements.

When the Audit Committee was set up in 2009, the Council adopted its terms of reference which was reflective of CIPFA guidance titled "Audit Committees – Practical Guidance for Local Authorities". CIPFA guidance did not specifically consider whether the Audit Committee could also approve the accounts (including the Annual Governance Statement) but the Accounts and Audit Regulations 2003 did allow this as it stated that the accounts should "be approved by a resolution of a committee of the relevant body or otherwise by a resolution of the members of the body meeting as a whole".

Since the Audit Committee has been set up, it has provided critical independent challenge over all aspects of the Council's financial performance including the annual accounts. Given this role, as well as the change in presentation to International Financial Reporting Standards and the training received by Audit Committee members for considering these statements, it is appropriate to change the responsibility for approval of the Statement of Accounts and Annual Governance Statement from Council to Audit Committee. This will align the expertise required and current constitutional responsibility for considering the two statements with the power for approving them. It represents a natural extension of the existing remit of the Audit Committee and provides for a more efficient process than the current one in which Council approves the accounts based on the advice of the Audit Committee.

**2. Options considered and recommended proposal**

- 2.1 Each year the City Council is required to produce and approve a Statement of Accounts and Annual Governance Statement. The Statement of Accounts is a document that recasts the City Council's financial position in a very technical and much prescribed way. It ensures that the accounts have been prepared in a proper manner and one that is in line with the expectations of our external auditors. **Approval of the Statement does not involve making any financial decisions on behalf of the City Council** and financial and budgetary control will remain with Cabinet and/or Council as appropriate. The Annual Governance Statement sets out how the City Council operates proper arrangements for the governance of its affairs including overall governance arrangements and systems of internal control. A large majority of the content of the Governance Statement coincides with the work undertaken by the Audit Committee in the course of each year.
- 2.2 The Audit Committee undertakes specialised training on a periodic basis to ensure that its membership is kept up to date with the key issues covered by these Statements. It is fair to say that the highly technical nature of some of the matters covered make it very difficult for anyone without such training to develop a reasonable understanding of them. From this perspective the Audit Committee is performing something of a technical role on behalf of

Council and Council in turn places reliance on Audit Committee to undertake proper scrutiny of the Statements.

2.3 Currently the Council's constitution does not give the Audit Committee authority to approve either statement. The existing Audit Committee Terms of Reference in section 2.9 of the Constitution state one of the responsibilities of the Committee to be to monitor the City Council's revenue and capital programmes and to consider the City Council's Annual Statement of Accounts, prior to its consideration (and approval) by full Council.

2.4 The Accounts and Audit Regulations 2011 state that the City Council must, by 30<sup>th</sup> September each year:

"(a) consider either by way of a committee or by the members meeting as a whole the statement of accounts;

(b) Following that consideration, approve the statement of accounts by a resolution of that committee or meeting;

(c) Following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given;"

This gives the City Council the option to choose whether the statements are approved by the Audit Committee ("a committee") or full Council ("members meeting as a whole").

2.5 The view of officers is that by giving the Audit Committee responsibility for approving these statements, this represents a natural extension of the existing remit of the Audit Committee. It also provides for a more efficient process than currently, with Council no longer being asked to approve statements for which it relies entirely on the advice of the Audit Committee. The option would always be open for other interested members to attend and contribute to the meetings at which these matters are discussed the Audit Committee.

2.6 The Audit Committee has the opportunity to consider the Statement of Accounts and Annual Governance Statement in more detail than might be possible at a full Council meeting and Committee members have received training to assist them in this process. The Committee has developed a close working relationship with our External Auditors, who undertake an external monitoring and reporting role in this respect.

2.7 The preferred option is therefore that the constitutional terms of reference for the Audit Committee in relation to these matters are changed from those in section 2.3 above to incorporate responsibilities for approving both the Statement of Accounts and Annual Governance Statement as follows:

- To monitor the City Council's revenue and capital programmes
- To consider and approve the City Council's Annual Statement of Accounts
- To consider and approve the City Council's Annual Governance Statement

The current responsibility for full Council to approve the Statement of Accounts would be removed accordingly.

2.8 The alternative option is to retain the current Audit Committee Terms of Reference. In this case the accounts would need to be approved by Council by 30<sup>th</sup> September. For the 2010/11 accounts, it is very unlikely that our external auditors will have sufficient time to complete and report upon their audit of the accounts in time for the existing meeting date of Council (13<sup>th</sup> September) and this would therefore most likely require a change to the dates of the Council meeting.

### **3. Results of consultation undertaken**

3.1 Given the nature of the report no consultation has been undertaken.

### **4. Timetable for implementing this decision**

4.1 The final Statement of Accounts and Annual Governance Statement require approval by 30<sup>th</sup> September 2011.

### **5. Comments from Director of Finance and Legal Services**

#### **5.1 Financial implications**

The Statement of Accounts is a heavily prescribed, highly technical and very detailed document and it is no exaggeration to say that even experienced finance professionals find it difficult to understand some of the more complex areas of the Statement. The Annual Governance Statement contains matters of governance that coincide greatly with the annual work-plan of the Audit Committee. The development of the role of Audit Committee in recent years has been very beneficial in terms of improving the understanding of committee members of the key issues contained within these documents. It is appropriate in such circumstances to move to a position whereby the Audit Committee is responsible for approval as well as consideration of these statements.

#### **5.2 Legal implications**

The Accounts and Audit Regulations 2011/817 have removed the requirement for the draft Statements to be approved by 30<sup>th</sup> June each year but have replaced this with a requirement for the audited and final statements to be approved by 30<sup>th</sup> September each year.

### **6. Other implications**

#### **6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?**

The Audit Committee undertakes a role that contributes to the Council's key objectives by helping to ensure that the Council will use its resources effectively and ensures that its performance is well managed.

#### **6.2 How is risk being managed?**

The key risk in relation to approval of these documents is reputational risk of not obtaining approval within statutory timescales. Removing one of the meetings at which the documents needs to be approved gives marginally more flexibility in this respect. Furthermore, both Statements will be fully considered, and approved, by the Committee with responsibility for monitoring these issues and by members with the appropriate training.

#### **6.3 What is the impact on the organisation?**

Improved governance arrangements.

#### **6.4 Equalities / EIA**

None

**6.5 Implications for (or impact on) the environment**

None

**6.6 Implications for partner organisations?**

None

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