

<b>MEETING</b>	SIX TOWN HOUSING BOARD
<b>DATE</b>	19 AUGUST 2009
<b>SUBJECT</b>	APPROVAL OF 2008/09 ACCOUNTS
<b>STATUS</b>	FOR PUBLICATION
<b>CONTACT OFFICER</b>	TRACEY HUNT, FINANCE AND BUSINESS DEVELOPMENT MANAGER

**1. INTRODUCTION**

- 1.1 The audit of the company's Financial Statements for 2008/09 has now been completed. The attached Report and Financial Statements have been considered by the Audit and Standards Committee and are now presented to Board for formal approval. This requires the Board to consider the financial position and confirm that the Company should be considered a going concern.
- 1.2 A letter of representation from the Board to the company's auditor is attached to this report. This needs to be approved by the Board and signed by the Chair on their behalf.
- 1.3 The Board also need to consider the appointment or tender of external audit.
- 1.4 The company's auditor has suggested that Board should be made aware of the actuary's assumptions in relation to the reporting of Retirement Benefits under Financial Reporting Statement 17; Appendix A outlines these assumptions and the impact of the FRS17 adjustments on the company's accounts.

**2. SUMMARY**

- 2.1 The accounts show a loss of £934k for 2008/09 and closing reserves of £719k. However these figures include accounting disclosures for retirement benefits, (required under FRS17), which make consideration of the actual running costs of the business more difficult.
- 2.2 Appendix A shows the company's results both including and excluding FRS17 and Appendix B details the main areas of under/overspend against budget. The key points for Board to note are:
  - we spent £1,006,000 more in the year than we received in income
  - we budgeted for a loss of £484,000 in the year (with this amount being taken from reserves)

- the overspend against the budget was £522,000
- accumulated reserves have reduced from £2,367,000 at the beginning of 2008/09 to £1,361,000 at the end of the year

2.3 Going concern - in accordance with Accounting Regulations, Directors should state in their report and accounts that the business is a going concern. In deciding whether the business is a going concern Board should consider the period up to at least 12 months from the date the accounts are approved and signed off.

2.4 The adoption of the going concern principle in the Financial Statements is based on the following information relating to the company:

- it has revenue reserves of £719K as at 31<sup>st</sup> March 2009;
- it has cash flow forecasts that show sufficient cash in place to continue in operation for the period under consideration.
- it has eight years remaining of a twelve year agreement with the Council
- it has been awarded '2 stars with excellent prospects' by the Audit Commission;
- it has a current business plan for the period 2006 to 2011 which is reviewed with updates issued periodically.

2.5 The company put its external audit service out to tender during 2008/09. Baker Tilly UK Audit LLP was appointed as auditor on 4th February 2009.

### 3. KEY ISSUES

#### 3.1 IMPACT ON CUSTOMERS

3.1.1 Customers will need to have the comfort and assurance that the Directors believe the Organisation is a going concern.

#### 3.2 RISK MANAGEMENT

3.2.1 Appropriate accounts disclosure and director representations are key to ensuring effective financial and regulatory control.

<b>Statement from Director of Resources</b>	Based on the information provided in this report and the Financial Statements, Board Members should be assured that there is little risk of the organisation not being a going concern.
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#### 3.3 FINANCIAL IMPLICATIONS

<b>Statement from Finance and Business Development Manager</b>	There are no direct financial implications arising from this report if the recommendations are approved. If Board were to propose that the company's auditor should not be re-appointed then a tendering process would be required. However the costs of the previous tendering process were not significant and were funded from within existing budgets.
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### **3.4 EQUALITY AND DIVERSITY IMPLICATIONS**

3.4.1 There are no equality and diversity implications arising from this report.

### **3.5 STRATEGIC OBJECTIVES**

3.5.1 The preparation of financial statements and disclosures are key to ensuring effective governance.

<b>Statement from Chief Executive</b>	Whilst it is pleasing to note that the Company has been assessed as being a 'going concern', Board Members should note the final outturn position that significantly varied from the budgeted position and the substantial reduction in the level of our reserves both including and excluding FRS17.
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## **4. RECOMMENDATIONS**

4.1 Board is asked to:

4.1.1 note the company's financial results and variations

4.1.2 agree that it is appropriate to prepare the company's accounts on a going concern basis.

4.1.3 formally approve the Report and Financial Statements

4.1.4 approve the letter of representation

4.1.5 agree that a resolution for the re-appointment of Baker Tilly UK Audit LLP as auditors of the company be proposed at the forthcoming Annual General Meeting.

4.1.6 confirm that it is satisfied with the actuary's assumptions relating to reporting under Financial Reporting Statement 17 "Retirement Benefits".

## **5. BACKGROUND**

5.1 Representatives from the company's auditor, Baker Tilly, attended the Audit and Standards Committee meeting on 8 July 2009 to present their Audit Findings Report. This followed their audit of the company's accounts for the year ended 31 March 2009. The minutes of the Audit and Standards Committee have been issued to Board as part of the papers for this evening's meeting.

5.2 The company's auditor confirmed that their audit opinion will be unqualified meaning that in their opinion is that:

- The financial statements give a true and fair view of the company's affairs as at 31 March 2009 and of its results for the year then ended
- The financial statements have been properly prepared in accordance with the Companies Act 1985
- The information given in the directors' report is consistent with the financial statements

5.3 The auditor has recommended that two particular areas should be addressed by the Board as part of their approval of the Report and Financial Statements:

- Consideration of the company's financial position and agreement on whether the Company should be considered a going concern.
- Consideration of the assumptions contained within the actuary's report for the purposes of reporting under Financial Reporting Statement (FRS) 17 "Retirement Benefits".

5.4 The principles of going concern were discussed with the Audit and Standards Committee.

5.5 The assumptions contained within the actuary's report are discussed in Appendix 1 to this report.

5.6 The main points from the auditor's Audit Findings Report are covered in the minutes of the Audit and Standards Committee. The Committee were made aware of five internal control weaknesses along with management responses as to how and when these would be addressed. One key issue was identified under the consideration of "Uncertainties, risks, exposures, judgemental issues and going concern". This related to the Repairs and Maintenance Service function running over budget, with the auditor reporting that if this function cannot be brought to a break even position by the end of the two year initial period then there would be extensive losses which could not be supported.

## 6. OPTIONS/ISSUES

6.1 Board could decide to recommend the tendering of the external audit contract rather than re-appointment of the current auditor.

## 7. CONSULTATION

7.1 Wider consultation is not appropriate.

## TRACKING/PROCESS

<b>EMT</b>	<b>WORKING GROUP</b>	<b>LIAG</b>	<b>COMMITTEE</b>
			<b>08.07.09</b>
<b>BOARD</b>	<b>COUNCIL</b>	<b>OTHER</b>	
<b>19.08.09</b>			

**APPENDIX A****Financial Reporting Statement (FRS) 17 “Retirement Benefits”****2008/09 financial results (including FRS17 accounting disclosures)**

<b><u>Outturn compared to budget 2008/09</u></b>	<b>£000</b>
Budgeted loss	727
Actual loss	934
Overspend against budget	207

<b><u>Change in reserves 2008/09</u></b>	<b>£000</b>
Reserves at beginning of year	2,205
Reserves at end of year	719
Reduction in reserves	1,486

**2008/09 financial results (excluding FRS17 accounting disclosures)**

<b><u>Outturn compared to budget 2008/09</u></b>	<b>£000</b>
Budgeted loss	484
Actual loss	1,006
Overspend against budget	522

<b><u>Change in reserves 2008/09</u></b>	<b>£000</b>
Reserves at beginning of year	2,367
Reserves at end of year	1,361
Reduction in reserves	1,006

## **Pension Liability**

Under FRS17 any pension deficit estimated by the pension fund actuary must be brought onto the balance sheet and adjustments made to the profit and loss account.

Our FRS17 balance sheet position at 31 March 2009 has deteriorated from the previous year. The pension liability showing on the balance sheet has increased from £162k at 31 March 2008 to £642k at 31 March 2009 – an increase of £480k. This increase is made up of :

	£000
Adjustments to profit and loss account	72
Actuarial loss in pension plan	(552)
Increase in liability 31 March 2009	(480)

This contrasts sharply with the 31 March 2008 position which had seen a reduction of £505k in the pension liability from £667k to £162k :

	£000
Adjustments to profit and loss account	(69)
Actuarial gains in pension plan	574
Reduction in liability 31 March 2008	505

There are a number of factors that have contributed to this significant change in the company's pension liability position but the major impact has been from unfavourable investment returns on the pension fund assets.

The financial assumptions relating to the expected inflation levels were more favourable with a fall in expected levels reducing the value of the pension fund liabilities however not to such a degree as to offset the impact of poor investment returns.

The adoption of more favourable financial assumptions has also resulted in the adjustments to the profit and loss account being a credit for 2008/09 as opposed to a charge to the account in the previous year.