APPENDIX 2: GLOSSARY OF TERMS

GLOSSARY OF TERMS

Wherever possible we have tried to minimise the use of technical accounting terminology. We set out below a glossary which aims to simplify and explain this terminology where it has been used.

Accounting Period

The timescale during which accounts are prepared. The council's annual accounting period is from 1 April to 31 March.

Accounting Policies

Those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in financial statements. Accounting policies define the process whereby transactions and other events are reflected in the financial statements.

Accounting Standards

The set of rules explaining how accounts are to be kept. By law, local council's must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practice.

Accruals

This is the concept that income and expenditure are recognised as they are earned or incurred and not as money is received or paid.

Acquisitions

The council spends funds from the capital programme to buy assets such as land and buildings.

Actuarial Gains

These may arise on the Local Government Pension Scheme's (LGPS) liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated)

Actuarial Losses

These may arise on the LGPS liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated)

Actuarial Valuation

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the council on the fund's financial position and recommended employers contribution rates in order to balance the fund over the long term.

Actuary

An adviser on financial information and assumptions relating to the pension scheme.

Admitted Body

A body which can be admitted to the LGPS with the agreement of the administering council, it must be non profit-making and will normally be in receipt of a grant from either central or local government.

Agency Services

Services provided by or for another local council or public body where the cost of carrying out the service is reimbursed.

Asset Register

A record of council assets including land and buildings, housing, infrastructure, vehicles and equipment etc. This is maintained to show the value of all council assets and for the purpose of calculating capital charges that are made to service revenue accounts. It is update annually to reflect new acquisitions, disposals, revaluations and depreciation.

Assets

All items of significant economic value owned by the council, including those which can be converted to cash and those held for cultural and other reasons (heritage assets).

Assets under Construction

Assets not yet ready for use. This could be new building work in schools or road construction.

Audit Commission

The body responsible for the appointment of external auditors to local council's, co-ordinating audits throughout the country, setting standards and monitoring performance.

Balance Sheet

This is a 'snapshot' of the council's assets, liabilities and reserves on 31 March 2012. Assets represent everything owned by the council and money owed to it. Liabilities are the sums that the council owes to others. It excludes the Pension Fund, whose assets the council cannot use.

Balances

The amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves. A full list is shown in the Movement in Reserves Statement on page 9 of the Statement of Accounts

Capital Adjustment Account (CAA)

This account accumulates the resources that have been set aside to finance capital expenditure offset by the write down of the historical cost of non-current (fixed) assets as they are consumed by depreciation and impairments or written off on disposal. The balance on the account represents timing differences between the amount that has been financed in accordance with statutory requirements and the amount of the historical cost of non-current (fixed) assets that has been consumed.

Capital Expenditure

Expenditure on the purchase, construction and enhancement of council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets statutory definitions and is in accordance with accounting practice and regulations.

Capital Financing

This term describes the method of financing capital expenditure, the principal methods now being loan and revenue financing and government grants.

Capital Financing Requirement

The council's total liabilities in respect of capital expenditure financed by loans less the provision made to meet these liabilities.

Capital Receipts

These are proceeds arising from the sale of non current (fixed) assets and repayments of capital grants and loans. They may be used to finance new capital expenditure or to repay outstanding loan debts as laid down in rules set by government.

CIPFA

Chartered Institute of Public Finance and Accountancy. The professional accountancy body concerned with local councils and the public sector.

Collection Fund

A fund administered by the council recording receipts from Council Tax and of non-domestic rates collected on behalf of Central Government, reflecting the statutory requirement for billing councils to maintain a separate account for these transactions. A proportion of the Council Tax which Ealing collects is done so on behalf of the Greater London Authority (GLA).

Community Assets

These are assets which the council intends to hold in perpetuity, have no determinable useful life, and may have restrictions on their disposal, for example parks and historic buildings.

Comprehensive Income & Expenditure Statement

The Comprehensive Income and Expenditure Statement summarises all of the resources that the council has generated, consumed or set aside in providing services during the year.

Contingent Assets

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future event not wholly within the council's control.

Contingent Liabilities

These are potential losses for which a future event will establish whether a liability exists. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial statements, but disclosed separately in a note to the Comprehensive Income and Expenditure Statement.

Contributing Member

A member of an occupational pension scheme who is building up pensions benefits, in either a defined benefit or a defined contribution scheme, from their current job.

Council Tax

A tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Creditors

These are amounts owed by the council for goods and services supplied, but for which payment has not been made at the end of the financial year.

Current Service Cost (Pensions)

The increase in the present value of the pension scheme's liabilities expected to arise from employee service in the current period.

Debtors

These are amounts owed to the council but not received at the end of the financial year.

Deferred Credits

This is the term applied to deferred capital receipts and represents capital income still to be received. These transactions arise when non current (fixed) assets are sold and the amounts owed by the purchasers are repaid over a number of years. The balance is reduced by the amount repayable in any financial year.

Deferred Liabilities

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. The main example of this is outstanding finance lease obligations.

Deferred Member

A member who is no longer active in the Scheme but is not yet in receipt of a pension.

Depreciation

This is the loss in value of a tangible asset due to age, wear and tear, deterioration or obsolescence through technological or other changes. Depreciation is a 'non-cash' charge as it merely reflects accounting assessments of the loss in value.

Earmarked Reserves

These are amounts which are set aside for a specific purpose to meet future specific projects or potential liabilities, for which it is not appropriate to establish provisions.

Emoluments

All sums paid to or receivable by an employee, and including sums due by way of expense allowances (as far as those sums are chargeable to UK income tax) and also the money value of any other benefits received other than in cash. Pension contributions payable by employees are excluded.

Equities

The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company.

Fair Value

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Finance and Operating Leases

These are financing arrangements with a third party. A finance lease substantially transfers all of the risks and rewards of ownership of a fixed asset to the lessee. Such assets have been valued and included under non current (fixed) assets in the Balance Sheet. With an operating lease, the ownership of the asset remains with the leasing company and the annual rent is charged to the relevant service account.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

General Fund

The council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

Heritage Assets

This is a separate class of assets with historic, artistic, scientific, technological, geophysical or environmental qualities (land, building or artefact / exhibit) that are held principally for their contribution to knowledge or culture.

Historic Cost

The actual amount paid to purchase or construct an asset as opposed to its current value.

Housing Revenue Account (HRA)

A statutory account that contains all expenditure and income on the provision of council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local councils are not allowed to make up any deficit on the HRA from the General Fund.

Housing Subsidy

The grant payable by central government to local councils to subsidise the cost of providing council housing and management and maintenance of that housing. The grants are paid into the Housing Revenue Account. This method of funding ends from 1 April 2012 following the introduction of the new self-financing arrangements.

Impairment

A reduction in the value of a non current (fixed) asset below its carrying amount on the Balance Sheet.

Infrastructure Assets

A fixed asset that cannot be taken away or transferred, and which can only continue to provide benefit from it being used. Infrastructure includes roads, bridges, and footpaths.

International Financial Reporting Standards (IFRS)

The accounting standards adopted by the International Accounting Standards Board (IASB). Local councils are required to produce their accounts using IFRS.

Intangible Assets

These are assets of value that do not have physical substance, for example Software Licences. Expenditure incurred on these assets is capitalised at cost and charged to the Balance Sheet.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period, in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment Managers

Firms appointed by the Pension Fund Panel to deal with the pension fund's investments on a day-to-day basis.

Levies

Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local councils in the area concerned, based on their Council Tax base.

Liability

A financial obligation, debt, claim, or potential loss.

Minimum Revenue Provision

The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes. In the accounts the MRP is included within capital financing charges.

Movement in Reserves Statement

Shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The latter generally hold unrealised gains or losses and can only be used once they are realised.

National Non-Domestic Rate (NNDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Inland Revenue multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local councils and paid over to the government. They are the redistributed to local councils on the basis of relevant population.

Net Realisable Value

The open market value of the asset less the expenses to be incurred in disposing of the asset.

Non Distributed Costs

These are costs relating to retirement and unused and unusable share of assets. These cannot be charged to current service revenue accounts.

Past Service Costs

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension Fund

Pension Fund Accounts are a separate entity and are not consolidated within the council's revenue account, balance sheet or other statements. The London Borough of Ealing Pension Fund was established to provide benefits for employees which include retirement pensions, widows pensions, death grants and other lump sum payments. The Fund is financed by contributions from employees, employers and from profits on realised investments, interest and dividends on its investments.

Pooling Arrangements (capital receipts)

Since 1 April 2004, 75% of 'Right to buy' capital receipts have to be paid to the DCLG; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects.

Post Balance Sheet events

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

Precept

A precept is an amount which the council is required to collect from Council Tax on behalf of other non-billing authorities, such as the Greater London Authority (GLA) in London, to finance its net expenditure.

Prior Year Adjustments

These are material adjustments, which are applicable to prior years arising from the correction of fundamental errors or inaccuracies. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provision

This is an amount, which is set aside for a liability or loss in respect of a past event, which is likely to be incurred, but where the exact amount and date on which it will arise is uncertain.

Prudential Code

This is a code of practice agreed between central government and CIPFA for the Prudential Capital Finance System introduced on 1st April 2004. The system allows local councils to set their own borrowing limits based upon affordability, sustainability and prudence. Local councils are required by legislation to have regard to the code.

Public Works Loan Board (PWLB)

A central government agency which provides long and medium term loans to local councils at interest rates only slightly higher than those at which government itself can borrow. Local councils are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Parties

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Related Party Transaction

A related party transaction is the transfer of assets or performance of services by, to or for a related party irrespective of whether a charge is made.

Reserves (Unusable)

Unusable reserves are reserves that in simple terms balance the council's Balance Sheet and cannot be released to spend on services. For example, the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure.

Reserves (Usable)

Usable reserves are those reserves that can be released to spend on services or added to for future spending on services. Details of these are set out in the note 40 on earmarked reserves

Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the non-current assets (fixed assets) held by the council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current (fixed) assets carried in the Balance Sheet is greater because they are carried at re-valued amounts rather than at cost of purchase less depreciation.

Revenue Expenditure

This is expenditure which is incurred on day to day running costs on recurring items involved in the delivery of services and is charged to the accounts within one financial year. Examples are salaries, wages, materials, supplies and services.

Revenue Expenditure funded by Capital under Statute (REFCUS)

Expenditure that may be classified under legislation as capital but does not result in the creation of a non current (fixed) asset on the Balance Sheet. This expenditure is generally charged to the relevant service revenue account in the year incurred with a corresponding credit to the Statement of Movements in Reserves to ensure there is no cost to the General Fund.

Revenue Support Grant (RSG)

This is the main general grant paid by the government to the council as a contribution to the revenue costs of providing all of its services. The amount of grant payable is based upon the government's assessment of the council's needs taking into account its ability to raise income from Council Tax and its share of income from the NNDR national pool.

Section 151 officer

A term used to describe the chief financial officer, whose responsibilities are set out in the *Statement of Responsibilities for the Statement of Accounts*. The council's chief financial officer is the Executive Director of Corporate Resources.

Service Reporting Code of Practice (SeRCOP)

CIPFA's Service Reporting Code of Practice (SeRCOP) sets out the financial reporting guidelines for local councils. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (known as the Code), by establishing practice for consistent reporting.

Scheduled Body

There are a number of employers who are required to provide membership of the Local Government Pension Scheme to all their employees. These employers are listed in a schedule that appears at the back of the Local Government Pension Scheme Regulations. Unlike admitted bodies, scheduled bodies cannot refuse membership of the Scheme to their employees

Security

Any kind of transferable certificate of ownership.

Soft Loans

Loans made by the council at less than the prevailing market rate of interest. The SORP requires the discounted interest rate to be recognised as a reduction in the Fair Value of the asset when measured for the first time and a charge to the Income & Expenditure Account to represent the interest forgone.

Statement of Investment Principles (SIP)

Trustees of Pension Funds are required to prepare and keep up to date this written statement to show the governance decisions on the investment of scheme assets.

Useful life

The period over which the council will derive benefits from the use of a non current (fixed) asset.

Valuation Bands

Currently for Council Tax purposes there are eight property valuation bands (Bands A to H) as set out in Part 1 of the Local Government Finance Act 1992. The amount each household pays depends upon which property band their home falls into. The property values are currently based upon property market values as at April 1991.

Write-offs

Income is recorded in the council's accounts on the basis of amounts due. When money owing to the council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

APPENDIX 3: INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF EALING

I have audited the financial statements of the London Borough of Ealing for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Ealing in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities in the Statement of Accounts, the Executive Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Corporate Resources and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the Pension Fund annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Ealing as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Ealing in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Corporate Resources is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Corporate Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on the financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, the London Borough of Ealing has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of London Borough of Ealing in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrea White
District Auditor

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28 September 2012