

# AUDIT COMMITTEE

## Agenda Item 29A

Brighton & Hove City Council  
(circulated in addition to  
circulated agenda)

**Subject:** Statement of Accounts 2008/09 – Update  
**Date of Meeting:** 29 September 2009  
**Report of:** Director of Finance & Resources  
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**Wards Affected:** All

FOR GENERAL RELEASE

The special circumstances for non-compliance with Council Procedure Rule 23 and Section 100B(4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) are that publication of the report was reliant on information and final agreement with the council's auditors following the conclusion of the annual audit.

## 1 SUMMARY AND POLICY CONTEXT

- 1.1 This committee approved the unaudited Statement of Accounts in accordance with the Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 at its meeting on 30 June 2009.
- 1.2 Since that date the Audit Commission has conducted its audit of the Statement of Accounts and has recommended a small number of amendments prior to issuing their opinion and the publication of the accounts.
- 1.3 This report details those amendments, provides information regarding the Annual Report and Summary of Accounts and informs the committee of the outcome of the Public Inspection of the accounts.

## 2 RECOMMENDATIONS:

The Committee is recommended to:

- (1) Note the results of the Public Inspection of the Accounts.
- (2) Note the amendments to the 2008/09 Statement of Accounts.
- (3) Note the advice in relation to the auditor's recommendation on prior period adjustments.
- (4) Note the position statement regarding the Annual Report and Summary of Accounts.

### **3 AMENDMENTS TO THE 2008/09 STATEMENT OF ACCOUNTS**

The following amendments were discussed and agreed with the council's Chief Finance Officer.

#### **3.1 Balance Sheet**

##### **3.1.1 Cash and Bank Balances**

The council has a separate bank account for New Deal for Communities into which the associated grant income is paid into. However, expenditure for New Deal for Communities is paid through the council's main bank accounts. A transfer between the two accounts for this expenditure, in order to match the funding with the expenditure, was not actioned as part of the closure of the accounts process, thereby causing the council's bank overdraft figure to be overstated by £2.005m with the debtor's figure also being overstated by the same amount.

In addition, there were outstanding monies owed to CLG in relation to overpayments made to New Deal for Communities which were not reflected in the Accounts, thereby causing the council's bank overdraft figure to be overstated by £0.790m with the creditor's figure being understated by the same amount.

Both these adjustments have no impact on the overall Balance Sheet position however they do affect the Cash Flow Statement position in that "Other Cash Receipts" and "Net Decrease in Cash" are both overstated by £2.795m. The statements affected are detailed in Appendix 1.

Procedure notes in relation to non-council funds have been reviewed to ensure necessary year-end transfers are identified in full. There are no material implications arising from this change.

##### **3.1.2 Fixed Asset Accounting**

There are a number of amendments required in relation to Fixed Asset accounting.

In October 2008 the council purchased new asset management software, "Asset 4000", partly in response to issues raised by auditors in the 2007/08 audit. As part of the testing process it was decided to recreate the 2007/08 fixed asset accounts in Asset 4000. This was completed successfully but more time was spent on implementation and testing than had been anticipated. The fixed asset accounting transactions were successfully completed in time for the production of the accounts but some of the final fixed asset reconciliations were not completed at this stage. As a result of the revaluation reserve reconciliation and the final fixed asset balance sheet reconciliation, errors were identified by officers; one relating to the historical cost depreciation adjustment of £0.835m and another in relation to the transfer of the Portslade Town Hall asset between the Housing Revenue Account and the General Fund amounting to £0.829m.

The council also made an impairment adjustment in relation to the Preston Barracks asset due to development costs being capitalised in error; this required an adjustment of £0.195m.

An error of £0.322m was made in the write down of grants relating to assets under construction.

Amendments are also required in relation to the treatment of the termination of the car park contract. The council incorrectly impaired this asset to nil value on termination of the contract with NCP and then subsequently revalued the Car Parks individually. Auditors have confirmed that the termination of a contract does not constitute an Impairment within the meaning of the SORP. This therefore resulted in an overstatement of £6.212m on the impairment sums charged to the revenue account and revaluation gains. In relation to the car parks, the council also incorrectly capitalised the £1.176m compensation payment to NCP.

In relation to the Portslade Community College asset, the sports hall land was found to be included twice in the Fixed Asset register. The council applied the incorrect treatment in correcting this error resulting in an overstatement of £2.397m on both impairments charged to revenue and revaluation gains.

The effect of the above amendments on the Balance Sheet is that Fixed Assets are overstated by £3.340m, Government Grants Deferred is overstated by £0.321m and the Net Worth of the council is overstated by £3.019m made up of the Revaluation Reserve being overstated by £11.209m and the Capital Adjustment Account being understated by £8.190m. The amendments also affect the Income and Expenditure Account in that the Total Deficit is overstated by £7.371m, however, this adjustment is reversed back out through the Statement of Movement on the General Fund Balance and therefore has no impact on the council's General Fund Balance.

The amendments also affect the Statement of Total Recognised Gains and Losses whereby Total Recognised Gains and Losses are understated by £3.019m. Details of all statements affected by the above amendments are set out in Appendix 1.

The council owns a great many assets and there are often many transactions relating to each asset within the asset register (Asset 4000) including impairments, revaluations, capital expenditure, disposals, etc. This results in thousands of entries which require review and reconciliation to provide the necessary quality assurance. As mentioned earlier, the introduction of a new system limited the time available for review and may have led to a higher number of errors than normal. The normal review period is expected to be available next year. Overall, however, the number of errors is small and in total they do not amount to a material misstatement in the accounts. All fixed asset errors have been adjusted in the accounts.

### 3.2 Cash Flow Statement

The "Rent (after rebates)" and the "Cash Received for Goods and Services" figures, part of the Revenue Activities section of the Cash Flow Statement, were both amended by £0.294m because the incorrect rent income figure had been used. This change has no impact on the net cash position shown in the Cash Flow Statement. There are no other implications arising from this change.

### 3.3 Note 47 to the Core Financial Statements, Financial Assets and Liabilities – Financial Instruments

The bank overdraft is classified as a financial liability within the Statement of Recommended Practice and has therefore been added to this note under the relevant sections. There are no other implications arising from this change.

### 3.4 Prior Period Adjustments

In the Annual Governance Report, the auditor has highlighted that a number of prior period adjustments have been made which do not meet the definition of Financial Reporting Standard 3, "Reporting Financial Performance". The report (Recommendation R1) asks the committee to consider requesting officers to change the accounts in this respect. The committee are advised to reject this recommendation for the following reasons:

- a) The prior period adjustments have been made to ensure effective comparison of in-year changes in the council's financial position and ensure the accounts are of greater use to the user and/or stakeholder. Reversing these changes will involve considerable resources, result in late production and publication of the accounts and, in the view of officers, would lessen the readability and value of the accounts to the reader.
- b) The auditor has stated in her report that a decision not to change the accounts will not result in a "qualified opinion". In other words, a decision either way will not affect the favourable audit opinion on the accounts.
- c) A decision not to change the accounts will not affect the council's "Use of Resources" assessment under the Comprehensive Area Assessment performance framework.
- d) There are no other implications if a decision is made not to change the accounts.

## **4 ANNUAL REPORT AND SUMMARY OF ACCOUNTS**

- 4.1 The council produces an Annual Report which incorporates the Summary of the Accounts. These documents aim to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main Statement of Accounts.
- 4.2 The Annual Report, incorporating the Summary of Accounts will be published on the council's website. A version of the Summary of Accounts will also be published in the November edition of the council's newspaper, City News.
- 4.3 The Annual Report continues to be improved each year to complement and/or reinforce other information provided by the council such as the Corporate Plan, Financial Statements and Performance Reports. This year, it includes a section on the council's management team and the progress made during 2008/09 against the Corporate Plan.

## **5 PUBLIC INSPECTION OF THE ACCOUNTS**

- 5.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four-week period to the council's unaudited Statement of Accounts and are invited to enquire on any aspect of these Accounts. If a member of the public is not satisfied with the response received,

they are able to lodge a formal objection to the Accounts with the Audit Commission.

- 5.2 This year the council received an enquiry from two members of the public. These enquiries encompassed many areas of the Accounts. Responses to the queries have been compiled and sent and have not resulted in any objection to the Accounts.

## **6 EVALUATION OF ALTERNATIVE OPTIONS**

- 6.1 After the Accounts have been made available for public inspection, alterations may only be made with the consent of the auditor, i.e. in this case the District Auditor. The alterations in this case have received her consent.

## **7 REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 To ensure that the Audit Committee is fully aware of the changes to the Accounts agreed with the auditor in response to the findings and recommendations arising from the audit of the accounts.

## **8 FINANCIAL & OTHER IMPLICATIONS**

### *Financial Implications*

- 8.1 Included in the body of the report.

*Finance Officer Consulted: Jane Strudwick      Date: 15 September 2009*

### *Legal Implications:*

- 8.2 Under the Accounts and Audit Regulations 2003, it is the responsibility of the Audit Committee to approve the council's statement of accounts (SoA). These Regulations also prohibit any alteration to the SoA without the consent of the auditor. Paragraph 6 above confirms that the required consent has been given, which makes it lawful for the Committee to note the amended 2008/09 SoA. Given the Audit Committee's role in respect of approving the SoA, it is entitled to reject a request by the Audit Commission to make a prior period adjustment.

*Lawyer consulted: Oliver Dixon      Date: 21/09/09*

### *Equalities Implications:*

- 8.3 There are no equalities implications arising directly from this report.

### *Sustainability Implications:*

- 8.4 There are no direct environmental implications arising from this report.

### *Crime & Disorder Implications:*

- 8.5 There are no direct implications for the prevention of crime and disorder arising from this report.

### *Risk and Opportunity Management Implications:*

- 8.6 There has been no direct risk assessment for this report.

### *Corporate / Citywide Implications:*

8.7 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority. The quality and accuracy of the Statement of Accounts also impacts on the council's score under the Comprehensive Area Assessment framework.

## **SUPPORTING DOCUMENTATION**

### **Appendices**

Appendix 1: Statements affected by amendments

### **Documents in Members' Rooms**

None

### **Background Documents**

None

## Details of Financial Statements Affected by Amendments

### Cash and Bank Balances

The adjustments described in paragraph 3.1.1 have no impact on the overall Balance Sheet position however they do affect the Cash Flow Statement position in that “Other Cash Receipts” and “Net Decrease in Cash” are both overstated by £2.795m.

The amendment results in changes to amounts included in the Notes to the Core Financial Statements. The amended notes are:

- i) 43 (“Revenue Activities Net Cash Flow”);
- ii) 44 (“Reconciliation of Movements in Cash to Net Debt and Items shown within the Financing and Movement of Liquid Resources”);
- iii) 47 (“Financial Assets and Liabilities – Financial Instruments”);
- iv) 48 and 49 which relates to “Debtors” and “Creditors” respectively were subsequently amended as a result of this adjustment.

There are no other implications arising from this change.

### Fixed Asset Accounting

The effect of various amendments described in paragraph 3.1.2 regarding the Balance Sheet is that Fixed Assets are overstated by £3.340m, Government Grants Deferred is overstated by £0.321m and the Net Worth of the council is overstated by £3.019m. The latter is made up of the Revaluation Reserve being overstated by £11.209m and the Capital Adjustment Account being understated by £8.190m. The amendments also affect the Income and Expenditure Account in that the Total Deficit is overstated by £7.371m; however, this adjustment is reversed back out through the Statement of Movement on the General Fund Balance and therefore has no impact on the council’s General Fund Balance.

The amendments also affect the Statement of Total Recognised Gains and Losses whereby Total Recognised Gains and Losses are understated by £3.019m. The amounts included in the following Notes to the Core Financial Statements were subsequently amended as a result of this adjustment:

- i) 20 (“Summary of Capital Expenditure and Fixed Asset Disposals”);
- ii) 26 (“Tangible Fixed Assets Valuations”);
- iii) 31 (“Analysis of Net Assets Employed”);
- iv) 35 (“Movements on Reserves”);
- v) 43 (“Revenue Activities Net Cash Flow”).

There are no other implications arising from these changes.