

Leicester  
City Council

FOURTH DESPATCH

## **AUDIT AND RISK COMMITTEE**

**27 September 2016**

Further to the agenda for the above meeting which you should have already received, an additional briefing note has been submitted and is attached.

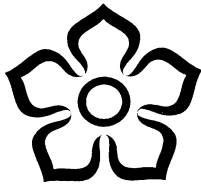
### **ADDITIONAL INFORMATION**

*AGENDA ITEM 7 – BRIEFING NOTE: AMENDMENTS MADE TO THE DRAFT 2015/16 STATEMENT OF ACCOUNTS AS A RESULT OF THE EXTERNAL AUDIT*

Report attached. A copy of the associated documentation is attached for Members only. Further copies are available on the Council's website at [www.cabinet.leicester.gov.uk](http://www.cabinet.leicester.gov.uk) or by phoning Democratic Support on 454 6454.

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Leicester  
City Council

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AUDIT & RISK COMMITTEE

27<sup>th</sup> September 2016

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**BRIEFING NOTE: AMENDMENTS MADE TO THE DRAFT 2015/16 STATEMENT OF ACCOUNTS AS A RESULT OF THE EXTERNAL AUDIT**

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**1. INTRODUCTION**

- 1.1. The unaudited Statement of Accounts (“pre-audit accounts”) is approved by the Director of Finance by 30<sup>th</sup> June following the end of the financial year. It is then submitted for external audit.
- 1.2. The final audited Statement of Accounts is required to be approved by the Audit & Risk Committee by 30<sup>th</sup> September following the end of the financial year.
- 1.3. It is common for the external audit of the Statement of Accounts to give rise to adjustments that need to be made to the pre-audit version. This note sets out the adjustments that have been made to the Council’s draft accounts for 2015/16.

**2. AMENDMENTS AFFECTING THE COUNCIL’S GENERAL FUND BALANCE**

- 2.1. There have been no amendments affecting the Council’s General Fund balance.

**3. MATERIAL AMENDMENTS TO THE FINANCIAL STATEMENTS**

- 3.1. There have been no material amendments to the financial statements.

**4. ‘NON-TRIVIAL’ ADJUSTMENTS TO THE FINANCIAL STATEMENTS**

- 4.1. The term ‘non-trivial’ is used by auditors for changes that are not in themselves material but which are significant enough to note. The ‘non-trivial’ adjustments to the Statement of Accounts agreed with the Council’s auditors are listed below. None of these adjustments had any impact on the Council’s General Fund.

**Amendment to Cash & Cash Equivalents & Creditor Balances**

- 4.2. The Council holds significant amounts of money on behalf of social care clients who are not able to manage their funds themselves. The funds include

pensions and other income paid to the Council on behalf of the clients, and are used to pay bills (including contributions for Council services) and provide cash for the individuals concerned.

- 4.3. At the 31<sup>st</sup> March 2016 the balance totalled £7.3m. The Council's Statement of Accounts reflects the cash held and also reflect a creditor liability in respect of these funds to demonstrate that they are owed to the clients (and are not the Council's own funds).
- 4.4. These balances were initially presented as a net position within the Creditors part of the Balance Sheet. They have now been separated into the cash and creditor elements. This has the effect of increasing the Cash & Cash Equivalents balance and also increasing the Creditor balance on the Balance Sheet.
- 4.5. This is a presentational amendment and does not alter the underlying financial position presented in the pre-audit accounts.

#### **Implementation of revised Minimum Revenue Provision (MRP) policy**

- 4.6. In November 2015 the Council approved a new policy around the charging of Minimum Revenue Provision to the General Fund.
- 4.7. MRP and the change in policy are explained in the Narrative Statement at the beginning of the documents but in essence MRP is a charge to the taxpayer for the repayment of the Council's underlying borrowing. The change in policy is to amend the method for calculating the charge such that it more closely resembles the lives of the underlying assets used to calculate it.
- 4.8. The effect of the change in policy is to reduce the amount of MRP chargeable in the short- and medium-term. The Council has also said that it will make additional contributions, known as Voluntary Set Aside, so that the total amount charged to the General Fund is consistent with what was charged under the previous method of calculating MRP.
- 4.9. In the pre-audit Statement of Accounts, the previous method of calculating MRP was still used, whilst acknowledging that the Council now had the ability to implement the new policy in future. It was concluded that the charge should instead be calculated on the new basis from 2015/16 and this was amended in the accounts.
- 4.10. The VSA charge was increased to offset the reduced MRP charge so there was no impact on the underlying financial position presented in the pre-audit accounts.

#### **Finance Leases**

- 4.11. The Council's accounts aim to reflect the underlying extent of the Council's assets and liabilities and as such they reflect leasing arrangements where the Council leases assets to or from others on terms that substantially equate to ownership.

4.12. Two lease arrangements were reflected in the pre-audit Statement of Accounts which have been revised following further consideration:

4.12.1. The Council's lease of the Haymarket Theatre was recognised as a finance lease and a liability created. This liability was larger than it should have been because some payments were included in the calculation that in fact represent annual service charges, not lease payments. This has been corrected with the effect of reducing the asset liability by £1.5m, making the lease de minimis.

4.12.2. The lease of the property at 20-40 New Walk is a finance lease but the initial entries to recognise this treated the transaction as an asset revaluation with separate credit arrangements. In fact most of these entries (amounting to £5.7m and affecting the Comprehensive Income & Expenditure Statement and the Movement in Reserves Statement) were unnecessary and have been reversed, although the Balance Sheet position was correct and remains unchanged.

#### **Disposal of property at Whittier Road**

4.13. Where land and building assets are surplus to operational requirements and are being actively marketed for disposal, they are classified in the Balance Sheet as Assets Held For Sale (AHFS).

4.14. In responding to auditors' testing of the Council's AHFS balance, it was discovered that land at Whittier Road had already been disposed of. The disposal was to a community group to facilitate development of affordable housing and community facilities, and was for a nominal consideration so there was no capital receipt.

4.15. The value of the assets disposed of was £1.7m and the disposal was actioned in the 2015/16 figures.

#### **Depreciation not charged**

4.16. Upon review of the Council's fixed asset register, it became clear that depreciation had not been charged on a small number of assets for 2014/15 and 2015/16. This was corrected, resulting in an additional charge to the CI&ES of £862k. Arrangements are being put in place to ensure that all necessary depreciation is charged in future years but the amount is in the context of total depreciation of around £39m.

### **5. OTHER PRESENTATION & DISCLOSURE ADJUSTMENTS**

#### **Fair Value Accounting Policy**

5.1. Some additional content was added to the Council's accounting policies in respect of the Fair Value basis of valuation for property and financial assets. This has not had any impact on the valuations included in the Statement of Accounts but does provide greater clarity on the approach taken following the introduction of a new accounting standard in 2015/16.

- 5.2. The Council's debtor balances were amended to reflect that some balances owed by other Government bodies were initially shown as owed by private entities. This relates to debtors in the Council's Accounts Receivable system, which need to be manually reallocated. This includes an adjustment of £0.3m between Debtors and Cash & Cash Equivalents in respect of amounts owed to the Council by maintained schools. There is no impact on the underlying financial position presented in the pre-audit Statement of Accounts.

6. **AUTHOR**

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