



Leicester  
City Council

AUDIT & RISK COMMITTEE

29<sup>th</sup> September 2015

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**BRIEFING NOTE: AMENDMENTS MADE TO THE DRAFT 2014/15 STATEMENT OF ACCOUNTS AS A RESULT OF THE EXTERNAL AUDIT**

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**1. INTRODUCTION**

- 1.1. The unaudited Statement of Accounts (“draft 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 draft version. This note sets out the adjustments that have been made to the Council’s draft accounts for 2014/15.

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

- 2.1. Only one adjustment has been made that affects the level of the Council’s General Fund balance. This adjustment is at the suggestion of Council officers and does not arise as a result of audit findings.
- 2.2. The Council has been holding funds set aside as part of the “managed reserves” budget strategy within the General Fund. It has been decided to move these balances to an earmarked reserve in order to provide greater clarity to users of the accounts around the underlying level of general balances held – the funds are committed to financing the existing budget strategy and are not available for new commitments.
- 2.3. A sum of £34m has been moved to the Budget Strategy – Managed Reserves Fund, leaving the General Fund balance at £15m, which is the minimum prudent level as determined by the Director of Finance.
- 2.4. The new earmarked reserve will be drawn down in coming financial years in line with the budget strategy approved by the Council.

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

#### **School and leisure centre asset values**

- 3.1. The most significant amendment to the Comprehensive Income and Expenditure Statement (CIES) relates to the value of the land and buildings assets held in respect of schools and leisure centres.
- 3.2. Both the need for, and the value of, the adjustment were identified by the Council prior to the issue of the draft Statement of Accounts in June 2015, and discussed with external auditors at that time. Due to the time required to collate the required information, figures were not available until during the audit period.
- 3.3. The Council, in line with normal practice, values its assets through a rolling 5-year programme. The need for a more significant adjustment arose because, whilst the underlying rules around frequency of asset valuations have not changed for 2014/15, the Code of Practice has placed greater emphasis on the need to ensure balances are materially correct overall, not just to rely on a rolling valuation programme, as has been the case in many authorities.
- 3.4. Upon investigation, it was determined that school and leisure centre assets representing a significant proportion of the overall value of Property, Plant & Equipment (PPE) assets had not been valued for three or more years. Whilst this is within the rolling programme time limits, changes to market and other conditions since the last revaluation meant that the assets as a group could have a value materially different from the value at which they were held in the Balance Sheet.
- 3.5. Finance officers worked closely with the Council's valuer to prepare a robust calculation of the likely impact revaluations, resulting in an uplift in asset value of the Council's schools and leisure centres totalling £76m.
- 3.6. The changes impact on the Balance Sheet, increasing the value of PPE by £76m, and the Comprehensive Income & Expenditure Statement, reducing Net Cost of Services by £33m and increasing Other Comprehensive Income by £43m.
- 3.7. The 2015/16 and future programmes of asset valuations will be planned between Finance and Property services to ensure that no further adjustments are required outside of the normal process.

#### **Cash & Cash Equivalents**

- 3.8. Items totalling £20m have been reclassified from Cash & Cash Equivalents to Short Term Investments. This is a presentational change reflecting the proper classification of these items under the Code of Practice.
- 3.9. This amendment does not alter the underlying value on the Balance Sheet or have any impact on the Council's financial position.
- 3.10. The overall value of Cash & Cash Equivalents has been re-presented in terms

of the split between Cash & Cash Equivalents and Overdraft. The Draft Statement of Accounts presented the position closely following the underlying legal grouping of the Council's new banking arrangements.

- 3.11. Following discussions with auditors, it has become clear that this presentation has some practical limitations. As such, the grouping now only applies to the Council's core corporate accounts and other balances are reflected individually.
- 3.12. Again, this change does not alter the underlying value on the Balance Sheet or have any impact on the Council's financial position.

#### **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

##### **Other amendments to schools assets**

- 4.2. Assets relating to Fullhurst Community College (£15.7m) were not initially recognised on the Council's Balance Sheet. These had been derecognised to reflect the transfer of assets to the school as it became a Trust. In fact, the final transfer of assets is now expected to take place during 2015/16 so the assets have been brought back onto the Balance Sheet until it has been completed. The need for this adjustment was recognised by officers and discussed with auditors.
- 4.3. Property assets related to West Gate School (£2.6m) were removed from the Balance Sheet. This reflects the transfer of those assets to the school following its conversion to Trust status.
- 4.4. Property assets related to Ash Field Academy (£2.1m) and Humberstone Junior Academy (£1.5m) were removed from the Balance Sheet – these assets had remained on the Council's books when the schools became academies, but should have been derecognised.

##### **Heritage assets**

- 4.5. A £472k increase in the value of the gallery collection in 2014/15 had been recorded as a revaluation gain but was in fact a combination of purchases and donations. The overall asset value was unchanged but other amendments were made to reflect the proper accounting treatment for the acquisitions.

##### **Other amendments**

- 4.6. Note 11 'Taxation and Non-specific Grant Income' required a minor adjustment to correct the split between the council tax and non-domestic rate lines.
- 4.7. Note 28 'Amounts reported for resource allocation decisions', which has the

purpose of reconciling the Council's management accounts to the final statement of accounts, required some adjustments including reallocating income that had previously been netted against support service recharges and correcting an erroneous prior year figure for employee expenses.

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

### **Major Repairs Reserve**

- 5.1. Changes were made to the presentation of the Major Repairs Reserve (MRR) and the presentation of £350k of additional depreciation within the Housing Revenue Account (HRA). These changes were presentational, giving greater clarity to the link between the MRR and the financing of HRA capital expenditure, and ensuring that the HRA's supporting notes were consistent with the main statements.
- 5.2. This is a complex area of accounting and the work done during the audit will be incorporated into future years' financial statements.

### **Officers Remuneration**

- 5.3. In Note 35 'Officers' Remuneration' the table in section 1 for senior employees' remuneration was adjusted. Some small amounts had been included as taxable P11D benefits but it has since been determined that salary sacrifice schemes do not need to be included. Minor amendments were also made to the note showing officers paid more than £50k, reducing the overall total by one.

### **Other disclosures**

- 5.4. A contingent asset related to ongoing litigation against Her Majesty's Revenue & Customs has been removed pending further progress in the legal action. This is a change in disclosure that has no impact on the underlying financial position.
- 5.5. An event following the Balance Sheet date has been recognised in respect of the changes made by the Government to social housing rents. This is a non-adjusting event that does not impact on the financial position presented in the accounts.

## **6. AUTHOR**

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