AUDIT & STANDARDS COMMITTEE	Agenda Item 35 Brighton & Hove City Council

Subject:		**Statement of Accounts 2011/12**	
Date of Meeting:		**25 September 2012**	
Report of:		**Director of Finance**	
Contact Officer:	**Name:**	**Jane Strudwick**	**Tel: 29-1255**
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Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 This report provides information about the audit of the 2011/12 Accounts, and recommends approval of the Statement of Accounts 2011/12 and the Letter of Representation on behalf of the council.

1.2 Under the Accounts and Audit Regulations 2011, the council's Statement of Accounts for 2011/12 must be approved by Members by the 30 September 2012. Under Brighton & Hove City Council's constitution, the Audit & Standards Committee is charged with this responsibility.

1.3 The council's external auditors (the Audit Commission) are required to give assurance that the Statement of Accounts are free from material misstatement and to report significant matters arising from the audit.

1.4 The Audit Commission has conducted its audit of the Statement of Accounts and has recommended only a relatively small number of amendments prior to issuing their opinion and the publication of the accounts.

1.5 This report presents the revised 2011/12 Statement of Accounts following the audit. It outlines the amendments made to the financial statements since they were presented to the June committee and provides assurances to the Audit & Standards Committee in relation to the preparation of the Statement of Accounts. It also provides information regarding the summary accounts and informs the committee of the outcome of the public inspection of the accounts. Copies of the revised Statement of Accounts are available in the Members' rooms.

2. RECOMMENDATIONS:

It is recommended that the Audit & Standards Committee:

2.1 Notes the findings of the Audit Commission in their Annual Governance Report (AGR). The AGR is a separate item on this agenda.

2.2 Notes the adjusted misstatements to the 2011/12 Statement of Accounts (paragraph 7.3 and Appendix 4).

2.3 Considers the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraph 7.4 and Appendix 5).

2.4 Notes the results of the public inspection of the accounts (Section 9).

2.5 Approves the letter of representation on behalf of the council (Appendix 1).

2.6 Approves the management responses to the action plan in the AGR.

2.7 Approves the audited Statement of Accounts for 2011/12.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011 made under Section 27 of the 1998 Act.

3.2 It is a requirement that the annual accounts should be prepared as soon as practicable after the end of the financial year and considered by a committee or Full Council, and approved by a resolution of that committee or Full Council by the 30 September.

3.3 The accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

4. FORMAT OF THE STATEMENT OF ACCOUNTS

4.1 As reported to the June committee, the council is required to present its financial statements on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2011/12 financial statements cover the period 1 April 2011 to 31 March 2012.

4.2 The purpose of the Statement of Accounts is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the council and to provide answers to basic questions such as:

- What did the council's services and capital programme cost in 2011/12?
- Where did the money come from?
- What does the council own?
- What commitments does the council have and what provisions and reserves has the council set against these?
- What amounts were due and what was owed at the end of the financial year?

4.3 In accordance with the accounts and audit regulations, the Statement of Accounts includes an explanatory foreword, a statement of responsibilities together with the core financial statements, supplementary statements, the notes to the accounts and a statement of accounting policies.

4.4 The statement would normally comprise both “Single Entity Accounts”, which are in respect of wholly council controlled activities, and “Group Accounts” in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, there are no activities requiring the preparation of Group Accounts in 2011/12.

4.5 The Single Entity core financial statements included within the Statement of Accounts comprise the following:-

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet including the Balance Sheet at the beginning of the earliest comparative period (i.e. a third Balance Sheet as at 1 April 2010)
- Cash Flow Statement
- Notes to the Financial Statements
- Statement of Accounting Policies

4.6 The supplementary statements comprise the Housing Revenue Account and the Collection Fund Account.

4.7 The explanatory foreword aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2011/12 Statement of Accounts is included in Appendix 3 to this report.

4.8 The Audit Commission has completed their work on the audit of the accounts and will be reporting their findings to this Committee through the Annual Governance Report. Following this report, the Audit Commission will be able to issue their audit opinion and the accounts will be published.

5. PREPARATION OF THE STATEMENT OF ACCOUNTS

5.1 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2011/12 (the Code), issued by CIPFA. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2011/12 Statement of Accounts are in line with the requirements of the Code.

5.2 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken extensive training on the requirements for preparing local government financial statements and notes. Finance officers who are involved in the preparation of the Statement of Accounts attend regular training to ensure an up to date knowledge and continuous professional development.

5.3 Officers have made reference to CIPFA’s practitioner’s guidance notes, disclosure checklists and other technical guidance in preparing the Statement of Accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the financial statements, with external audit over the proposed accounting treatment of the key changes affecting the 2011/12 financial statements.

5.4 The council makes a number of critical judgements, accounting estimates and assumptions in the preparation of the financial statements; the details are disclosed in note 3 to the financial statements.

5.5 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers within Finance. Following this review, the Statement of Accounts was then approved by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review forms part of the working papers produced for the external auditors.

5.6 During the accounts audit process, officers liaise closely with the external auditors in respect of audit queries and work closely to ensure prompt and successful resolution of these queries. During the audit of the 2011/12 accounts, there have been no disputes between council officers and external audit in relation to the required amendments to the accounts.

6. CHANGES TO ACCOUNTING STANDARDS

6.1 The council has adopted a change in accounting policy in respect of heritage assets.

6.2 Note 1 to the financial statements provides a summary of the changes in respect of heritage assets while the Explanatory Foreword includes a section on significant changes in accounting policies. The latter provides a more detailed explanation of the change to the treatment in accounting for heritage assets and how it has affected the council's reported financial position and cash flows.

6.3 The financial statements include a separate section detailing a summary of the council's significant accounting polices.

6.4 The main changes for the 2011/12 accounting period are summarised in Appendix 2 of this report.

7. AUDIT OF THE STATEMENT OF ACCOUNTS 2011/12

7.1 The Audit Commission has completed the audit of the council's accounts and their Annual Governance Report (AGR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.

7.2 The AGR for 2011/12 states that the draft financial statements were of a good standard, supported by good quality working papers and were in accordance with statutory deadlines and the council's internal timetable.

7.3 During the course of the audit, the external auditors detected a relatively small number of errors in the financial statements. Amendments to the accounts were discussed and agreed with council officers; details of these amendments and the financial statements affected are included in Appendix 4 of this report.

7.4 There were other misstatements identified from the audit which were discussed by officers and the external auditor; however, for reasons set out in the letter of representation (see Appendix 1), the council has elected not to adjust the financial statements. Details of these unadjusted misstatements are detailed in Appendix 5 of this report.

7.5 Compilation of the financial statements relies on data extracted from the financial systems operated by the council including those systems which interface into the financial system. It is therefore, important for the auditors to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them. The main control weaknesses identified by the auditors were within the payroll system. This is a key system as it generates a large part of the council's expenditure. The auditors therefore undertook additional substantive testing, which identified a small number of errors that are not material to the authority's accounts. Recommendations by the Audit Commission to continue to improve the control environment within the payroll system are included in Appendix 6 of the AGR.

8.1 SUMMARY OF ACCOUNTS

8.1 Each year, the council produces a summary version of the accounts which aims 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. The Summary of Accounts will be published on the council's website alongside the 2011/12 Statement of Accounts.

9. COMMUNITY ENGAGEMENT AND CONSULTATION

9.1 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.

9.2 This year the council received an enquiry from one member of the public. This enquiry encompassed many areas of the Accounts. Responses to the queries have been compiled and sent. At the time of writing this report, the enquiries have not resulted in any objection to the Accounts.

10. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

10.1 The financial implications are included in the body of the report.

Finance Officer Consulted: Jane Strudwick Date: 05/09/12

Legal Implications:

10.2 The legal framework for approving the council's statement of accounts is provided by regulation 8 of The Accounts and Audit (England) Regulations 2011 (statutory instrument 2011/817), relevant details of which are set out in the body of the report.

10.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit & Standards Committee which fulfils this statutory role.

Lawyer Consulted: Oliver Dixon Date: 07/09/12

Equalities Implications:

10.4 There are no equalities implications arising directly from this report.

Sustainability Implications:

10.5 There are no direct environmental implications arising from this report.

Crime and Disorder Implications:

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

Risk and Opportunity Management Implications:

10.7 There has been no direct risk assessment for this report.

Public Health Implications:

10.8 There are no public health implications arising directly from this report.

Corporate / Citywide Implications:

10.9 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 council.

11. EVALUATION OF ANY ALTERNATIVE OPTION(S):

11.1 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.

12. REASONS FOR REPORT RECOMMENDATIONS

12.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2011/12 Statement of Accounts should be approved by Members by the 30 September 2012.

12.2 To ensure that the Audit & Standards 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.

SUPPORTING DOCUMENTATION

Appendices:

1. Letter of Representation
2. Summary of the main changes for the 2011/12 accounting period
3. Commentary on the Statement of Accounts
4. Details of amendments made to the Financial Statements
5. Details of unadjusted misstatements

Documents in Members' Rooms

1. Statement of Accounts

Background Documents

None

Appendix 1

Letter of Representation

To:
Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ

Brighton & Hove City Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Brighton & Hove City Council, the following representations given to you in connection with your audit of the council's financial statements for the year ended 31 March 2012:

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Audit & Standards Committee and the reasons for not correcting these items are as follows.

Payroll Expenditure

- There is uncertainty as to the level of overstatement of payroll expenditure in respect of this error; the value reported has been extrapolated. The extrapolated impact to the 2011/12 statements is not material.

Property, Plant and Equipment

- This adjustment has no impact on the overall financial performance reported in the Statements;
- The impact to the 2011/12 statements is not material and the asset will be written out during 2012/13.

Capital grants and contributions with conditions

- This is a non material error affecting classification between debtors and creditors on the Balance Sheet
- There is no impact on the net assets of the council.

Supporting records

I have made available all relevant information and access to persons within the council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the council.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit & Standards Committee on 25 September 2012

Signed:

Name: Nigel Manvell

Position: Acting Director of Finance

Date: 25 September 2012

Schedule of Unadjusted Misstatements to the Statement of Accounts

Payroll Expenditure

There were three errors identified in the Audit Commission's substantive testing of payroll expenditure in relation to authorised hours not being paid to an employee and enhanced payments incorrectly calculated. The council has been unable to demonstrate that these errors were isolated. The extrapolated error of understatement in the Comprehensive Income and Expenditure Statement is £197,000.

Property, Plant and Equipment

Depreciation of £294,000 was charged in error on the new school at Brighton Aldridge Community Academy (BACA). The council's accounting policy is not to charge depreciation on a new asset until the year following acquisition or the year after the asset becomes operational. The impact of this error is an overcharge of depreciation to the Comprehensive Income and Expenditure Statement and the closing value of assets being overstated.

Capital Grants and Contributions

Expenditure of £1.7 million incurred in advance of the receipt of a capital grant or contribution has been incorrectly misclassified in the Balance Sheet as a creditor receipt in advance and should have been classified as a debtor.

Appendix 2

Summary of the main changes for the 2011/12 accounting period

Heritage Assets

The 2011/12 Code requires, for the first time, the recognition of ‘heritage assets’. Heritage assets are those assets held by the council that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They include historical buildings such as the Royal Pavilion, historic motor vehicles such as the Volks Railway, historic windmills and museum and gallery collections and works of art.

A review of the council’s non current assets held (e.g. land, buildings, plant and equipment) has taken place to re-categorise assets that meet the definition for a heritage asset. The identified heritage assets are now included in the council’s Balance Sheet using insurance valuations.

This change was a retrospective change in accounting policy and therefore required the recognition of the assets at 1 April 2010 (i.e. a third Balance Sheet).

The council has identified that assets to the value of £7.055 million as at 1 April 2010, that were previously held as community assets, other land and buildings and vehicles, furniture, plant and equipment, should now be recognised as heritage assets. Additional heritage assets that were not previously recognised in the Balance Sheet have also been brought on to the council’s Balance Sheet in 2011/12. The total value of those assets identified as heritage assets as at 1 April 2010 is £177.721 million thereby increasing the asset value of non current assets as at 1 April 2010 by £170.666 million.

The value of heritage assets as at 31 March 2012 have been updated for revised insurance valuations in 2011/12 and the value at this date is £182.301 million. Note 17 to the financial statements and the significant changes in accounting policy section of the explanatory foreword includes more detail.

Carbon Reduction Commitment (CRC) Scheme

The financial year 2011/12 is the first year that the council is required to account for CRC emissions under the CRC scheme. The scheme is in its ‘introductory phase’.

Under the scheme, the council has an obligation to purchase and surrender CRC allowances in relation to carbon dioxide emissions at the end of the financial year. The council purchases the allowances from the government and surrenders the allowances to the scheme in proportion to its reported emissions for the preceding scheme year and in accordance with the scheme requirements.

The obligation arises at the point at which the energy is consumed and carbon dioxide emitted. At this point, a liability and expense are recognised by the council with the liability being discharged by the surrendering of allowances. The measurement of the obligation is based on the requirements under the council’s accounting policy for provisions. The liability is measured at the best estimate of the expenditure required to settle the obligation, normally at the current market price of the number of allowances required to meet the liability at the end of the financial year. The cost of the obligation is charged to services and is apportioned on the basis of energy consumption.

At 31 March 2012, the council had an obligation to meet its CRC responsibilities of £0.271m and has set aside this amount as a provision. This obligation is based on a

CO^2 usage of 22,608 tonnes at £12 per tonne; the CO^2 usage is based on the council's carbon footprint as at 2010/11 as submitted to the Department of Energy and Climate Change on 30th September 2011.

Note 43 to the financial statements includes more detail.

Exit Packages

From 2011/12, 'the Code' requires the disclosure of exit packages paid to employees. Exit Packages include compulsory and voluntary severance costs, including pay in lieu of notice.

The council is required to disclose the number of exit packages in bands of £20,000 up to £100,000 and bands of £50,000 thereafter analysed between compulsory redundancies and other departures. The council is also required to disclose the total cost of packages agreed in each band. Bands can be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere within the Code).

The council has disclosed £1.695m of exit packages in 2011/12. Note 31 to the financial statements includes more detail.

HRA Self Financing

With effect from 1st April 2012 the HRA subsidy system was abolished and replaced with a new system of self financing. Under the new system the council was required to take on additional debt totalling £18.081m. This payment was made on 28th March 2012 and is shown as an exceptional payment in the financial statements for 2011/12.

Appendix 3

Commentary on the Statement of Accounts

General Fund

The level of General Fund working balance and general reserves held at 31 March 2012 was £16.976 million; this represents the working balance of the council and is deemed appropriate by the council's Chief Finance Officer. In addition there are also General Fund earmarked reserves of £56.742 million.

Housing Revenue Account (HRA)

This account reflects the statutory requirement to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure – maintenance, administration, and capital financing costs - and how these are met by rents, subsidy and other income.

The 2011/12 outturn for the HRA shows a net surplus of £2.020 million. The HRA reserves now stand at £6.720 million, which is well in excess of the recommended minimum level of balances of £2 million. In addition there are also HRA earmarked reserves of £0.940 million.

Balance Sheet (BS)

This statement is particularly technical, which is unavoidable given the requirement to observe the Code of Practice and the complex capital accounting, financial instrument and pension reporting standards. There are explanatory notes to the Balance Sheet in the Statement of Accounts.

Non Current Assets

Total non current assets (including current assets held for sale) have increased from £2,016.715 million as at 31 March 2011 to £2,102.012 million as at 31 March 2012. The in year movement in non current assets is detailed in notes 16 to 20 to the core financial statements. The movement of £85.297 million relates to the following:

- An increase of £113.031 million for additions to PPE, heritage assets and intangible assets which reflects the significant capital investments;
- PPE and heritage assets upward revaluation transactions of £45.903 million;
- Depreciation, impairment and revaluation losses transactions of £46.277 million;
- Downward movement in the fair value of investment properties of £2.086 million;
- Disposal of non current assets of £25.231 million;
- Other movements of £0.043 million.

Gains and losses on the disposal of fixed assets are charged to the Comprehensive Income and Expenditure Statement but then reversed back out through the Movement in Reserves Statement to ensure they do not impact on the Council Tax demand. However, the cost of disposal remains as a charge to revenue.

Borrowing

In accordance with the CIPFA Code on Treasury Management, the management of the council's borrowing portfolio is based on a consolidated approach and not by individual services. The level of borrowing (including the bank overdraft) has increased in the year by £26.469 million.

During 2010/11, the council entered into three forward borrowing deals totalling £30 million of which two of these deals totalling £20 million became operational in February 2011 with the other deal becoming operational in February 2012.

As a result of the abolishment of the HRA subsidy system from April 2012, the council was required to take on additional debt of £18.081 million; this amount was paid to central government on 28 March 2012 funded by five long term loans with varying maturity dates.

Note 36 to the financial statements provides further information on borrowings.

Investments

At 31 March 2012, the council held investments of £52.911 million. Investments are made by the in-house treasury team and the council's external cash manager. The council uses an external cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock.

The level of investment has reduced in year by £4.082 million. The council has placed new short term investments of £599.480 million in 2011/12 and has realised cash from the maturity of short term investments of £603.611 million.

Note 36 to the financial statements provides further information on investments.

Revaluation Reserve

This represents any upward revaluations of assets in accordance with the Code. Any impairment of assets is also reflected in this account only to the extent that it can be offset against previous upward revaluation of the asset. Any excess impairment is charged to the Income and Expenditure Account. The reserve stands at £507.038 million as at 31 March 2012.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose. The balance of £70.416 million at 31 March 2011 decreased to £57.682 million at 31 March 2012. Details of Earmarked Reserves held can be found in note 10 to the financial statements.

Schools' balances

Schools' balances have increased by £2.501 million from £3.879 million at 31 March 2011 to £6.380 million at 31 March 2012. All schools have the right to carry forward surpluses and overspends, within agreed limits, which will be added to, or taken from their school budget share. The £6.380 million balance includes phases as follows: - primary schools £3.664 million, secondary schools £2.173 million, special schools £0.487 million and nursery schools £0.056 million.

There is an overall increase in carry forwards; and, the movement across phases shows variations as follows: - primary schools increased by £1.020 million, secondary schools increased by £1.085 million, special schools increased by £0.408 million and nursery schools decreased by £0.012 million.

In total there are 6 schools (out of 68) with deficit balances (9% of total schools) and the split of these is as follows: - 3 primary schools, 2 secondary schools and 1 special school. School budget plans for 2012/13 will incorporate these overspends and the Council's Schools' Finance team have worked closely with schools to identify and support those requiring licensed deficits (approval to overspend) in the 2012/13 financial year.

Pension Liability

The pension liability (net of pension assets) was £106.557 million at 31 March 2011 and it increased by £49.088 million to £155.645 million at 31 March 2012.

The pension's actuary has advised that the increase in the deficit is due to falling real bond yields and poor asset returns.

The council also recognises a reserve for the estimated net pension liability. Therefore, amounts included in the council's accounts in relation to post employment benefits have no effect on the council tax requirement as the liability is offset by a Pensions Reserve.

Collection Fund

In 2011/12 there was an in year deficit of £0.623 million on the Collection Fund, a movement of £2.648 million from 2010/11 which had an in year deficit of £3.271 million. The in-year deficit related mainly to a higher than anticipated entitlement to exemptions and discounts.

Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2012 that are reasonably certain and can be estimated with reasonable accuracy. Provisions are included for the following:-

Accumulated Absences – The council is required to make provision for accumulated compensated absences (e.g. annual leave and flexi leave) that are carried forward for use in future periods if the current period's entitlements are not used in full.

Single Status Liability Provision - The council made proactive offers to groups of staff in relation to potential equal pay back pay liabilities and has implemented the outcome of a pay and grading review. The provision relates to potential outstanding liabilities that the council is very likely to incur in relation to these matters. To help establish the potential liability, a legal review was conducted of all outstanding employment tribunal and internal grievance claims. The provision has been increased in 2011/12 to cover anticipated payments to officers who have left the council and had lodged a valid employment tribunal claim. This provision is separate to the single status earmarked reserve which is to meet potential pay related liabilities that cannot be estimated with any certainty.

Voluntary Severance Scheme Provision - The council established a voluntary severance scheme during 2010/11 to allow its officers to consider leaving their employment with the council in return for a severance package. This scheme was established to assist the council in meeting its tough financial targets in 2011/12 whilst avoiding the need for compulsory redundancies. The balance on the provision will meet the costs of severance packages which had not been completed at the Balance Sheet date.

Other Provisions – the council has a number of other provisions which are individually insignificant. These include provisions for: Maintenance of Graves, Land Charges, Modern Records unit, Priory House Dilapidations and Workstyles Dilapidations.

Contingent Liabilities are included where there is a possible loss which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss is not considered sufficiently certain. The majority of these claims are not considered material and will therefore have no material effect on the council's financial position. A contingent liability is recognised in respect of outstanding and potential insurance claims where it is not possible to accurately estimate the timing or value of claims. However, the council's Insurance Reserve includes cover for potential liabilities based on past experience and professional assessment of current and potential liabilities.

Appendix 4

Details of Amendments to the Statement of Accounts

Primary financial statements and supporting notes

There were a relatively small number of internal consistency, disclosure and numeric errors in the draft financial statements that were made in the process of producing the financial statements and not caused by underlying accounting errors.

S75 Arrangements

There was a material error in the disclosure of funding contributions and expenditure for the CYPT S75 arrangement presented in note 8 to the financial statements.

There was a non material error in the disclosure of provider spending for adult social care presented in note 8 to the financial statements.

Capitalised Salary Costs

The recharge of capitalised salary costs had been incorrectly treated as external income to the council rather than as an internal recharge. This had an impact of income being overstated by £472,000 and expenditure also being overstated by the same amount in the Comprehensive Income and Expenditure Statement. This amendment also affected the level of contributions disclosed in note 14 to the financial statements.

PFI Contingent Rentals

PFI Contingent rentals of £2.596 million were incorrectly accounted for in the Cost of Services in the Comprehensive Income and Expenditure Statement. They should have been accounted for as an interest charge and included in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement. This amendment also affected the disclosures made in notes 12 and 34 to the financial statements.

Appendix 5

Details of Unadjusted Misstatements to the Statement of Accounts

Non Current Assets

Depreciation of £294,000 was charged in error on the new school at Brighton Aldridge Community Academy (BACA). The council's accounting policy is not to charge depreciation on a new asset until the year following acquisition or the year after the asset becomes operational. The impact of this error is an overcharge of depreciation to the Comprehensive Income and Expenditure Statement and the closing value of assets being overstated. The impact to the 2011/12 statements is not material and the asset will be written out during 2012/13. There is no impact on the financial performance of the council. For these reasons the council has elected not to make an adjustment to the accounts.

Capital Grants and Contributions

Expenditure of £1.7 million incurred in advance of the receipt of a capital grant or contribution has been incorrectly misclassified in the Balance Sheet as a creditor receipt in advance and should have been classified as a debtor. Capital grants and contributions have been correctly accounted for in the Comprehensive Income and Expenditure Statement. This adjustment has no impact on the council's net assets reported in the Balance Sheet and for this reason the council has elected not to make an adjustment to the accounts.