AUDIT & STANDARDS COMMITTEE	Agenda Item 29 Brighton & Hove City Council

Subject:		**Statement of Accounts 2012/13**	
Date of Meeting:		**24 September 2013**	
Report of:		**Executive Director of Finance & Resources**	
Contact Officer:	**Name:**	**Jane Strudwick**	**Tel: 29-1255**
	Email:	**jane.strudwick@brighton-hove.gov.uk**	
Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 This report provides information about the audit of the 2012/13 Accounts, and recommends approval of the 2012/13 Statement of Accounts 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 2012/13 must be approved by Members by the 30 September 2013. Under the council's constitution, the Audit & Standards Committee is charged with this responsibility.

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

1.4 Ernst & Young has conducted its audit of the Statement of Accounts and has identified one material misstatement relating to the valuation of the Royal Pavilion together with a relatively small number of presentation and disclosure amendments prior to issuing their opinion and the publication of the accounts.

1.5 This report presents the revised 2012/13 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 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 Ernst & Young in their Audit Results Report (ARR). The ARR is a separate item on this agenda.

2.2 Notes the adjusted misstatements to the 2012/13 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 audited Statement of Accounts for 2012/13.

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 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 2012/13 financial statements cover the period 1 April 2012 to 31 March 2013.

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 2012/13?
- 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 2012/13.

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 2011)
- 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 2012/13 Statement of Accounts is included in Appendix 3 to this report.

4.8 Ernst & Young has completed their work on the audit of the accounts and will be reporting their findings to this Committee through the Audit Results Report. Following this report, Ernst & Young 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 2012/13 (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 2012/13 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 Ernst & Young over the proposed accounting treatment of the key changes affecting the 2012/13 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 Financial Services. 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 formed part of the working papers produced for Ernst & Young.

5.6 During the accounts audit process, officers liaised closely with Ernst & Young in respect of audit queries and worked closely to ensure prompt and successful resolution of these queries. During the audit of the 2012/13 accounts, there have been no disputes between council officers and Ernst & Young in relation to the required amendments to the accounts.

6. CHANGES TO ACCOUNTING STANDARDS

6.1 After a period of substantial change to local authority accounts in recent years, there have been no significant changes to accounting standards applied by the council to their financial statements during 2012/13.

6.2 However, the council has adopted a change in accounting policy in respect of the property, plant and equipment valuation for its sheltered housing stock. Note 4 to the financial statements provides a detailed explanation of the change to the treatment in the valuation methodology applied for the sheltered housing stock 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 2012/13 accounting period are summarised in Appendix 2 of this report.

7. AUDIT OF THE STATEMENT OF ACCOUNTS 2012/13

7.1 Ernst & Young has completed the audit of the council's accounts and their Audit Results Report (ARR) 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 ARR for 2012/13 states the council continues to produce good quality draft financial statements supported by working papers which were internally consistent and generally compliant with extant accounting and disclosure requirements. Ernst & Young commented that this was as a result of effective closedown processes and arrangements to produce and quality review the draft financial statements prior to submission for audit.

7.3 During the course of the audit, Ernst & Young identified one material misstatement in respect of the valuation of the Royal Pavilion. The misstatement was judgemental in nature and had no impact on the council's reported financial performance. It related to a specific judgement on how to use insurance valuations to help assess its carrying value. They also detected a relatively small number of presentation and disclosure 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 set out in Appendix 5 of this report.

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 2012/13 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 Ernst & Young.

9.2 This year the council received enquiries from three members of the public. These enquiries 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: 11/09/13

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: 11/09/13

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 Ernst & Young. The alterations in this case have received their consent.

12. REASONS FOR REPORT RECOMMENDATIONS

12.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2012/13 Statement of Accounts should be approved by Members by the 30 September 2013.

12.2 To ensure that the Audit & Standards Committee is fully aware of the changes to the Accounts agreed with Ernst & Young 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 2012/13 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

Helen Thompson
Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Brighton & Hove City Council – 2012/13 Financial Year

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 2013:

A. Financial Statements and Financial Records

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that as the Responsible Officer I have:

- ► reviewed the accounts;
- ► reviewed all relevant written assurances relating to the accounts; and
- ► made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

I believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. Reasons for not correcting each of the uncorrected misstatements are as follows:

- ► The sample testing of leases carried out by Ernst & Young identified an error in the analysis of future minimum lease payments due under operating leases where the council is lessor. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential uncorrected error in the disclosure at Note 22 is £5.6 million. The impact to the 2012/13 financial statements is disclosure only with no impact on the financial performance of the council and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts;

- The sample testing of creditors carried out by Ernst & Young identified an over accrual of capital creditors of £0.5 million. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential overstatement of creditors in the financial statements is £2 million. The impact to the 2012/13 statements is not material and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts.

B. Fraud

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the council's internal controls over financial reporting. In addition, I have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. I have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the council.

C. Compliance with Laws and Regulations

I have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

I have provided you with:

- access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 24 September 2013.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the council related parties and all related party relationships and transactions of which I am aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

I have disclosed to you, and the council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

F. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent;
- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework;
- The assumptions used in making accounting estimates appropriately reflects my intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

On the basis of the process established and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with my knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Segmental reporting

I have reviewed the operating segments reported internally to the management team and the council and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8:Operating Segments, they are similar in each of the following respects:

- ► The nature of the products and services;
- ► The nature of the production processes;
- ► The type or class of customer for their products and services;
- ► The methods used to distribute their products.

J. Going Concern

I have made you aware of any issues that are relevant to the council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

K. Specific Representations

There have been no significant changes to the council's Private Finance Initiative schemes during 2012/13 and contractual arrangements, including any material variations, and the accounting model used are not significantly changed from the end of the last accounting period.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit & Standards Committee on 24 September 2013

Signed:

Name: Catherine Vaughan
Position: Executive Director Finance & Resources
Date: 24 September 2013

Signed:

Leslie Hamilton
Chairman
Audit and Standards Committee
Date: 24 September 2013

Appendix 2

Summary of the main changes for the 2012/13 accounting period

Property, Plant and Equipment Valuation for Sheltered Housing Stock

During 2012/13, the council appointed new external valuers, Savills, for the housing stock who, as part of their 2013/14 valuation work, have advised the council that the sheltered housing stock should attract the same social housing adjustment as the general housing stock. Following receipt of this advice, the council further considered the composition and nature of its sheltered housing stock and concluded that it is more akin to general purpose housing with limited additional support (including call systems, shared laundry facilities, common rooms) and warden management. The form of tenancy (secured tenancy, not short term) is also the same across the council's sheltered and general purpose housing stock. Based on this assessment, the council determined that it was appropriate to apply the regional social housing discount factor to the EUV value for its sheltered housing provided by Wilks Head and Eve, the council's HRA valuer in 2012/13. Therefore, the council has amended its accounting policy for valuation for sheltered housing stock such that the social housing discount factor should be applied to the existing use valuation. The application of the amended accounting policy increased the valuation of the council's sheltered housing stock in the region of £60 million.

This change in accounting policy results in the financial statements providing reliable and more relevant information on the council's financial position and was therefore necessary under the Code. The change was required to be applied retrospectively. Given that the impact of the change in accounting policy was material, a prior period adjustment was also required with disclosure of the impact at the start of the comparative period (the 'third balance sheet' disclosure).

Appendix 3

Commentary on the Statement of Accounts

General Fund

The level of General Fund working balance and general reserves held at 31 March 2013 was £22.332 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 £50.855 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 and other income.

The 2012/13 outturn for the HRA shows a net deficit of £0.659 million. The HRA reserves now stand at £6.061 million, which is well in excess of the recommended minimum level of balances of £2.7 million. In addition there are also HRA earmarked reserves of £2.619 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 £2,062.292 million as at 31 March 2012 to £2,079.399 million as at 31 March 2013. The in year movement in non current assets is detailed in notes 16 to 20 to the core financial statements. The movement of £17.107 million relates to the following:

- An increase of £64.700 million in respect of capital expenditure incurred on to PPE, heritage assets, investment property and intangible assets which reflects the significant capital investments made;
- PPE and heritage assets upward revaluation transactions of £45.689 million;
- Depreciation, impairment and revaluation losses transactions of £74.624 million;
- Downward movement in the fair value of investment properties of £1.788 million;
- Disposal of non current assets of £17.028 million, part of which related to disposals under finance leases;
- Other movements of £0.158 million.

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. At 31 March 2013, the council's level of borrowing (including the bank overdraft) was £213.118 million, a decrease in the year of £3.537 million. The council did not raise any new loans or repay any borrowings during 2012/13. Note 36 to the financial statements provides further information on borrowings.

Investments

At 31 March 2013, the council held investments of £55.446 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 increased in year by £2.535 million. The council has placed new short term investments of £666 million in 2012/13 and has realised cash from the maturity of short term investments of £678 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 £555.381 million as at 31 March 2013.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose. As at 31 March 2013, the council held earmarked reserves of £53.474 million, a decrease in the year of £4.208 million. Details of Earmarked Reserves held can be found in note 10 to the financial statements.

Schools' balances

Schools' balances have increased by £0.734 million from £6.380 million at 31 March 2012 to £7.114 million at 31 March 2013. 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 £7.114 million balance includes phases as follows: - primary schools £2.865 million, secondary schools £3.403 million, special schools £0.798 million and nursery schools £0.048 million.

There is an overall increase in carry forwards; and, the movement across phases shows variations as follows: - primary schools decreased by £0.799 million, secondary schools increased by £1.230 million, special schools increased by £0.311 million and nursery schools decreased by £0.008 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: - 1 Nursery school and 3 primary schools. School budget plans for 2013/14 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 2013/14 financial year.

Pension Liability

The estimated pension liability (net of pension assets) for future pension payments increased in 2012/13 by £42.558 million from £155.645 million at 31 March 2012 to £198.203 million at 31 March 2013.

The pension's actuary has advised that the increase in the deficit is due to financial assumptions made on pension scheme liabilities being less favourable than they were at 31 March 2012; specifically the actuary has changed the methodology for calculating the discount rate. The increase in pension liabilities has been partly offset by investment performance over the period being better than expected resulting in a positive impact on pension assets.

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

As at 31 March 2013, the was an in year surplus of £1.335 million on the Collection Fund, a movement of £1.958 million from 2011/12 which had an in year deficit of £0.623 million. The surplus includes a £1 million contribution from precepting authorities towards the previous years' deficit with £0.335 million surplus relating to a lower level of impairment required on financial asset due to improved debt collection rates.

Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2013 that are reasonably certain and can be estimated with reasonable accuracy. Significant 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 continues to make provision for potential historic liabilities arising as equal pay case law and legislation has developed where the liabilities can be estimated with reasonable accuracy. The council considers each case on its merits and undertakes a legal review before considering proactive settlement. The level of provision held at 31 March 2013 was £1.506 million. 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 late 2012/13 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 2013/14 whilst avoiding the need for compulsory redundancies. The balance on the provision of £1.781 million will meet the costs of severance packages which had not been completed at the Balance Sheet date.

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. Note 27 provides details of the council's contingent liabilities as at the Balance Sheet date.

Appendix 4

Details of Amendments to the Statement of Accounts

Comprehensive Income and Expenditure Statement (CIES)

Income and expenditure shown within the Net Cost of Services of the CIES was overstated by £6.7 million. This was caused by internal recharges of expenditure not being netted off and eliminated from the financial statements.

Heritage Assets

The closing 2012/13 carrying value of the Royal Pavilion was under-stated by £22 million. The council had initially reduced the insurance value by 15 per cent to arrive at the carrying value in the financial statements to reflect the proportion of the insurance valuation relating to fixtures, fittings and other contents. Ernst & Young challenged the basis for this accounting estimate. On further consideration the council decided that the value of fixtures and fittings was likely to be nominal and that it was not appropriate to reduce the insurance valuation by 15 per cent to arrive at the carrying value in the financial statements. The council has also disclosed a prior period adjustment in relation to this issue.

This had an impact of Heritage Assets being understated by £22 million. This amendment affected the prior period adjustment disclosed in Note 4 and Heritage Assets disclosed in note 17 to the financial statements.

Note 37 Debtor

The disclosure of debtors in respect of the Primary Care Trust and Strategic Health Authority were incorrectly classified as central government bodies in note 37 to the financial statements; their correct classification is as NHS bodies. The amount reclassified was £2 million.

Note 36 Financial Assets and Liabilities - Financial Instruments

There were a number of adjustments to debtors (financial assets) and creditors (financial liabilities) disclosed in the financial statements. The gross value of the adjustments to the financial instruments disclosure in 2012/13 was approximately £14.7 million. All the adjustments made in this area are disclosure only and relate only to Note 36 Financial Assets and Liabilities - Financial Instruments.

The Code of Practice on Local Authority Accounting (the Code) requires the disclosure of an analysis of the age of financial assets that are past due as at the reporting date but not impaired by class of financial asset. No such disclosure has been made in the council’s draft 2012/13 financial statements. This disclosure is now included within the credit risk section of note 36.

Appendix 5

Details of Unadjusted Misstatements to the Statement of Accounts

Note 22 Lease and lease type arrangements

The sample testing of leases carried out by Ernst & Young identified an error in the analysis of future minimum lease payments due under operating leases where the council is lessor. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential uncorrected error in the disclosure at Note 22 is £5.6 million.

The impact to the 2012/13 financial statements is disclosure only with no impact on the financial performance of the council and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts.

Note 38 Creditors

The sample testing of creditors carried out by Ernst & Young identified an over accrual of capital creditors of £0.5 million. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential overstatement of creditors in the financial statements is £2 million.

The impact to the 2012/13 statements is not material and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts.