FSM/10/2005

KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE

to be held on 29th November 2005

Report by Andrew Hart, Financial Services Manager

STATEMENT OF ACCOUNTS 2004/2005 – Post Audit

1. Purpose of Report

The purpose of this report is to bring to member's attention a change to the council's Balance Sheet, required by the Audit Commission during the course of the external audit process that was completed towards the end of October 2005.

2. Financial, Staffing, Risk and Legal Implications

There are no staffing, legal or risk implications arising from this agenda item. The financial implications arising from this report are covered within the content. The adjustments required to the balance sheet do not relate to physical cash but are purely accounting entries.

3. Content

The Accounts and Audit Regulations 2003 required the accounts relating the financial year 2004/2005 to be adopted by the Council or the appropriate main committee by 31st July 2005. Members will recall that they approved the Council's Statement of Accounts at the meeting of the Resources Executive Committee held on 26th July 2005. At that meeting members were informed about a change to the Capital Finance Regulations, which resulted in an accountancy transfer between set aside capital receipts (PCL) and Usable Capital Receipts (UCR). Under external audit scrutiny it transpires that the transferred amount was overstated due to a number of accounting adjustments that were made in previous years, some as long as ten years ago. This had the effect of overstating the Capital Financing Reserve and the Usable Capital Receipts within the balance sheet.

The external auditor therefore requested a number of adjustments to be made to the balance sheet to change the way in which a number of transactions had been accounted for in previous years as follows:

Prior Year Adjustment in 1998/99 accounts - it was discovered in 1997/98 that the calculation of receipts and costs made after the housing transfer could have included improvement costs on council houses made in the 3 years prior to the transfer. This would have had the effect of reducing the set aside capital receipt (in the PCL) and increasing the amount of useable receipts (UCR). Therefore, an adjustment was made in the accounts debiting the PCL and crediting the UCR for £4.997m, but which did not adjust the credit ceiling

LSVT Levy 1995/96 accounts - as part of the LSVT, the Council was required to pay £8.125m to the government as a levy, which was debited to the PCL, again with no adjustment to the credit ceiling.

Credit Approval Adjustment - the Council was previously able to finance capital expenditure (other than Social Housing Grant (SHG)) from its PCL, as it was a debt-free authority. It was also permitted to use credit approvals to finance capital expenditure from PCL. Kennet did do this, where credit approvals were available, to finance SHG from PCL. However, the credit ceiling was not adjusted for this element of the capital expenditure that was financed by the PCL, although it would be reflected through CFR via the PCL. The figures related to this adjustment are £387,835 for 1998/99 and £221,000 for 1999/2000. Again the PCL would have been debited by these amounts, but this would not have been reflected in the credit ceiling.

The above adjustments have been corrected and the Audit Commission have signed off the accounts unqualified. The revised balance sheet (post audit) has been attached at Appendix A.

4. Conclusions and Recommendations

Purely technical adjustments have had to be made to The Balance Sheet. These adjustments have absolutely no bearing on the Council's financial position in terms of its current and future revenue and capital budget requirements. Nevertheless, the balance sheet adjustments have to be made.

It is recommended that :

(1) The Council's post audit balance sheet for the financial year 2004/2005 is formally adopted in accordance with the Accounts and Audit Regulations 2003 and that the adjustments made to the balance sheet during audit are noted.