

MANCHESTER CITY COUNCIL

REPORT FOR INFORMATION AND RESOLUTION

COMMITTEE: **AUDIT COMMITTEE**

DATE: **25 SEPTEMBER 2008**

SUBJECT: **ANNUAL ACCOUNTS 2007/2008 AND LETTER
OF REPRESENTATION**

REPORT OF: **CITY TREASURER**

PURPOSE OF REPORT

To inform Members of adjustments to the annual accounts for 2007/2008 and to seek their approval and acknowledgement of the letter of representation.

RECOMMENDATIONS

The Committee is asked to agree the amendments made to the annual accounts for 2007/2008 and to approve and acknowledge the letter of representation attached to this report which will be signed by the City Treasurer.

Financial Consequences for the Revenue Budget

This report relates to expenditure incurred in 2007/2008. The net effect of the identified amendments to the annual accounts is to decrease general fund reserves by £1,420,000 and increase HRA reserves by £1,020,000.

Financial Consequences for the Capital Budget

None

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Background Documents:

Annual Accounts 2007/2008
Report to Audit Committee on 27 June 2008

Wards affected:

All

Implications for:

Antipoverty	Equal Opportunities	Environment	Employment
No	No	No	No

ANNUAL ACCOUNTS.

1. Members will recall that the Annual Accounts were approved by Audit Committee on 27 June 2008.
2. International Standard on Auditing (ISA) 260 requires that any non-trifling amendments be reported back to the Committee that approved the accounts before the audit can be completed. Further details of these requirements can be found in the External Auditor's report on this agenda. It should be noted that the value of amendments that are considered to be non-trifling by Grant Thornton are considerably lower than those set by the Audit Commission. These values are as follows –

General Fund £320,000
Housing Revenue Account £64,000
Collection Fund £80,000
Group Accounts £360,000

It is pleasing to note there are considerably fewer adjustments to the 2007/2008 accounts than there were to the previous year's accounts. Many of the adjustments are as a result of updated information and revised guidance. However a small number of adjustments are as a result of errors. Further procedures will be put in place during the 2008/2009 accounts process to try and eliminate these errors. A full report on the action taken to ensure the Council achieves a better Use of Resources score on final accounts and action which needs to be taken will be reported to October's meeting of Resources and Governance Scrutiny Committee.

3. The following amendments, that affect the net expenditure of the Council, have been identified during the period of the audit. These have been agreed with the Grant Thornton.
 - During the audit of creditors Grant Thornton identified that a creditor for non-housing rent had been excluded from the accounts. Upon further investigation by Corporate Services staff it became apparent that the accounting for both rent expenditure and income was incorrect in that the expenditure and income shown in the accounts was for the twelve month period 25 June 2007 to 24 June 2008 rather than 1 April 2007 to 31 March 2008. In correcting this practice, income has been reduced by £2,362,000 and expenditure by £663,000 resulting in a net impact on the general fund reserve of £1,699,000.
 - The allocation of interest between the general fund and the HRA has been re-calculated. This revised calculation has resulted in an additional charge from the general fund to the HRA of £279,000. This was as a result of an element of the calculation being fixed by the CLG at a rate which only became available in late August 2008.
 - Additional housing subsidy entitlement of £1,299,000 has been identified. This adjustment is made up of three elements – a provision for audit amendments of £500,000 no longer being required, the subsidy entitlement being incorrectly reduced by an amount of £306,000 relating to notional interest allocated to the HRA and the amendment of the use of an incorrect rate of interest leading to entitlement of an additional

£493,000 of subsidy. In addition housing subsidy of £200,000 had been netted off supervision and management expenditure in error. This has been corrected.

4. The net effect of these amendments is to decrease general fund reserves by £1,420,000 (reduction in income from property rents £2,362,000 partly off set by reduction in property rent expenditure £663,000 and increase in interest charges charged to the HRA £279,000) and increase HRA reserves by £1,020,000 (increase in housing subsidy due of £1,299,000 partly offset by increased allocation of interest from the general fund of £279,000).

5. Following discussions with Grant Thornton the following changes have been made to the 2006/2007 comparative figures.

- As Members will be aware an issue was identified during the audit of the 2003/2004 accounts relating to the apportionment of premiums and discounts on early redemption of debt between the general fund and the HRA. The treatment was amended from 2004/2005 onwards and it was agreed with the Audit Commission that the shortfall in charge to the general fund would be written off over the following ten years. Following the implementation of the 2007 SORP Grant Thornton are unable to agree the continuation of this arrangement. We have therefore agreed that the outstanding amount will be written off as a prior adjustment in 2006/2007. The amount written off in 2006/2007 is £26,279,000. As a result of this write off the charge made in 2007/2008 has been reduced by £2,862,000. Corresponding transfers have been made from and to earmarked reserves and there is therefore no effect on the general fund reserve. Following a review of the premiums and discounts the amount allocated to income and expenditure account in 2007/2008 has reduced by £3,503,000. This is reversed through the Statement of Movement in General Fund Balances and has no effect on general fund reserves.

- An additional adjustment has been made relating to premiums and discounts that affects the balance sheet only. Following the issuing of a Local Authority Accounting Panel bulletin in March 2008 three existing premiums were used to reduce the value of the replacement loans on the balance sheet by the amount of premium outstanding. Further CIPFA guidance was issued in August 2008 and it has now been agreed with Grant Thornton that these premiums should no longer be treated in this way. As a result of this change in guidance long term borrowings have increased and the financial instruments adjustment account reduced by £21,264,000 on the balance sheet having no overall effect on the Council's usable reserves.

6. The following changes, that have no effect on the level of general fund reserves, have been made to the income and expenditure account.

- An additional £4,324,000 LPSA2 performance reward grant has been recognised in the accounts. When the draft accounts were completed there had been no independent review to confirm that the Council had met the required targets. This has now been undertaken and the Council has recognised this income. This income was budgeted for in 2008/2009 and has been transferred to the service improvement fund as agreed during the budget process.

- Following discussions with Grant Thornton the treatment of LSVTs has been further revised. All transactions related to LSVTs in the income and expenditure account have been netted off the loss on disposal of fixed assets.

- An amount of £360,000 relating to an invoice owed by a school to the Council was incorrectly netted off debtors twice. This has been corrected which has the effect of increasing debtors and the LMS reserve.

- A capital receipt of £786,000 had been accounted for as an upward revaluation instead of a gain on disposal of fixed assets. This has been corrected in the income and expenditure account.

7. The following adjustments have been made to the Council' balance sheet.

- Revaluation figures of £577,000 relating to schools no longer on the Council's balance sheet had been included in fixed assets and the revaluation reserve. This has been corrected.

- Capital expenditure of £468,000 had been classed as assets under construction rather than infrastructure. This has been amended.

- The reserves for the capital holding in Manchester Airport plc (£62,717,000) and other company holdings (£20,000) have been combined with the capital adjustment account.

- The treatment of deferred grants and contributions has been reviewed following the receipt of new guidance issued in August 2008. In the draft accounts grants relating to assets under construction were shown as grants and contributions unapplied (£32,721,000). The revised guidance says that these should be shown as government grants deferred. Similarly grants and contributions that had been received but not yet used to fund capital expenditure, e.g. building schools for the future, that were previously shown as receipts in advance have now been shown as grants and contributions unapplied (£58,940,000).

8. In addition to the amendments to the accounting statements additional information has been provided in the explanatory foreword and statement of accounting policies. Improved disclosures have also been made in some of the notes to the accounts.

9. Within the report by the External Auditor a number of issues are raised. As regards these recommendations work will be undertaken during the current financial year to ensure these recommendations are acted on.

10. At the time of writing this report the audit of the 2007/2008 accounts was substantially completed. After the amendments made and subject to the satisfactory conclusion of the outstanding work, an unqualified opinion is expected to be issued by 30 September. If any further amendments are identified prior to the Committee's meeting they will be reported at the meeting.

LETTER OF REPRESENTATION.

11. The Council is required to provide a letter of representation to its Auditors. These representations are required to be approved and acknowledged formally by a committee of the Council. A copy of this letter is attached to this report.

RECOMMENDATION.

12. The Committee is asked to agree the amendments to the annual accounts for 2007/2008 and to approve and acknowledge the letter of representation which will subsequently be signed by the City Treasurer.