

## Changes to 2007/08 Statement of Accounts

### **Interest on balances - £1.357m accrued interest on investments.**

Local Authority Accounting Bulletin 73 (LAAP 73) was issued in April 08 to clarify the issue of accrued interest as the Statement of Recommended Practice (SORP) was unclear on this. However the LAAP only covered interest incurred on borrowing and was silent on the treatment of accrued interest on investments. It was not until September, by virtue of attendance at a Sector seminar, that it became clear that if accrued interest forms part of the carrying amount of a loan in the balance sheet then the obverse is true with regard to an investment. No other guidance, official or otherwise has ever been received by me.

### **Amendment to opening balance £2.084m relating to 2006/07 comparative figures for Financial Adjustments A/C.**

This relates to premiums on overhanging debt which we still had on the balance sheet at 31/3/07. In accordance with the SORP these were written off to the General Fund at 1/4/07 and then transferred to the Financial Adjustments A/C. Confusion arose over the interpretation of the SORP with regard to whether the 06/07 balance sheet needed restating or the adjustment was just to the 07/08 balance sheet, the result of which was to incorrectly adjust the 06/07 figures. This was subsequently corrected.

### **£186,000 surplus asset held for disposal.**

This relates to land at Oaks Road Kenilworth which had not previously been recognised in the balance sheet, the SORP guidance notes make it clear that the accounting entries for this are debit Fixed Assets, credit Revaluation Reserve. However this causes a problem with the Statement of Recognised Gains and Losses (STRGL) in that if the effect of recognising the asset is not shown as a revaluation (which it isn't) in the revaluations line then the STRGL will not balance. The only way to deal with this was to put the credit through the Income and Expenditure account as a gain or loss on the disposal of fixed assets which in itself is questionable. This appears to be an area where the SORP guidance is in conflict with the aims of the SORP itself.

### **£2.450m Overage receipt.**

This was originally treated as a capital receipt but it became clear that unless it was treated as revenue the STRGL would not balance. After further consideration it was concluded that the overage payment was not a capital receipt due to a) we disposed of the asset, Site E, some years ago and therefore had no asset to which the payment related to write out of the balance sheet and b) the overage payment was based on rents received by the owners of Site E since the opening of the development. Rents being a revenue income source further re-inforced the view which appeared to be backed up by comments made at a CIPFA SORP seminar by a member of the Audit Commissions own technical team. This original change was reported to Council in June in some detail, but the External Auditors' technical advisors have now advised that it should have been treated as a capital receipt with the profit on sale being shown on the Income and Expenditure account so as to ensure that the STRGL balanced

### **£590k Benefits.**

The Council operates one Benefits cost centre covering council and housing benefits. The SORP require Council Tax Benefits to appear in "Central Services" and not

"Housing Services". Accordingly, as well as the actual benefits a calculation is made to split out the administrative cost associated with Council Tax Benefits from the Benefits expenditure (in this case £590k). In order not to double count expenditure and income (i.e. having the actual expenditure in Housing Benefits and the recharge in Council Tax Benefits) it is necessary to cancel out the recharge from both income and expenditure - unfortunately, it was cancelled out of the Council Tax Benefits instead of the Housing Benefits - found when compiling the Audit working papers.

**£185k Debtors.**

In closing the 2006/07 accounts, the Council owed Benefits Subsidy to Department for Work and Pensions. This was duly included within the Council's creditors in the balance sheet. However, as at 31 March 2008, the Council was owed £185k in Benefits Subsidy. This specific cost centre should have been re-categorised as a debtor to reflect this change; this became apparent when compiling the Audit working papers.

**Suspense Income £314k.**

When preparing the accounts, there was a balance of income that could not readily be identified. In accordance with normal practice, this amount was held in the balance sheet as a creditor on the basis that it may need to be repaid if it was not due to the Council. Subsequent analysis did confirm that the amount was due to the Council, and would have gone towards settling various debtor accounts that the Council held. The auditors are therefore requesting that this amount should be netted off the debtors shown in the accounts. This is a departure from the practice accepted in previous years.