

Councillor Mrs Tarrant
Audit Committee Chairman
Eastbourne Borough Council
By EMAIL

23 September 2010

Dear Councillor Mrs Tarrant and Members of the Audit Committee

Audit of accounts 2009/10 – addendum to annual governance report – Uncorrected misstatement

I am writing to let you know I have completed my review of the Council's disposal of a fixed asset in the year. The matter is referred to at paragraph 3.36 of my Annual Governance Report. A further misstatement was identified by my work which the Council has decided not to correct, as summarised below.

In 2009/10 the Council sold buildings known as 'Derry Court' to a Social Housing organisation. The Council received £480,000 for the asset which had a carrying value of £991,000 on the balance sheet. The asset was correctly written out of the Council's balance sheet as at 31 March 2010.

The asset was previously paid for using a capital grant which needed to be repaid upon disposal. The Council did not fully account for the capital grant which meant the Income and Expenditure Account (HRA Housing Services); the Usable Capital Receipts Reserve and the Capital Adjustment Account excluded certain transactions, as shown below. The misstatement of income and expenditure is equal (and opposite) and there is no effect on the general fund balance.

Income and Expenditure Account (HRA Income) and Usable Capital Receipt Reserve

The Income and Expenditure account should have recorded the total income and total expenditure associated with the disposal. However, these transactions were excluded from the Income and Expenditure of the Council which means:

- the Income and Expenditure Account (HRA Housing Services Income) amount is understated by £384,000
- the Statement of Movement on the General Fund (Note 13 Transfer to Earmarked Reserves Usable Capital Receipt Reserve) amount is understated by £384,000

In addition, the Usable Capital Receipts Reserve does not record the receipt of the amount of £384,000 or its subsequent application to repay the capital grant.

The misstatements do not affect the General Fund Balance or the amount of reserves available to the Council.

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Income and Expenditure account (HRA Expenditure) and Repayment of Capital Grant

The asset was previously paid for using a capital grant amounting to £384,000 which should have been repaid upon disposal. However, the Council recorded the net amount received for the asset as £96,000 in the draft accounts (being £480,000 cash receipt less the grant of £384,000). The Council's accounts should have recorded the 'gross' value of the transactions.

The repayment of the capital grant (£384,000) should have been disclosed as 'Revenue Expenditure Financed from Capital Under Statute' (known as 'REFCUS'). This means the following amounts are understated in the accounts:

- Income and Expenditure Account (HRA Housing Services Expenditure) is understated by £384,000
- Statement of Movement on the General Fund (Note 13 REFCUS) is understated by £384,000

None of the misstatements affect the General Fund Balance.

Capital Adjustment Account

The Capital Adjustment Account (CAA) records transfers from the General Fund. It also records the amounts withdrawn from the Capital Receipts Reserve to finance expenditure. The CAA does not record the following transactions:

- the usable Capital Receipts Reserve amount is understated by £384,000
- the adjustment for REFCUS amount is understated by (£384,000).

There is no effect on the overall CAA balance as at 31 March 2010.

A revised Appendix B to my Annual Governance Report is attached to this letter.

Yours sincerely



Robert Grant
Partner
PKF (UK) LLP

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Members of the Audit Committee
A Osborne, Chief Finance Officer