

Summary Sheet

Council Report Audit Committee

Title

Closure of the Accounts 2017/18

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

Report Author(s)

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Ward(s) Affected

All

Executive Summary

The principal objective of the Council's annual financial statements is to make the Council accountable to a range of local and national stakeholders over the stewardship of its resources.

It is therefore important that the Council's financial statements are prepared in accordance with recognised accounting standards so that they can be relied upon by users of the accounts.

This report brings to Members attention the main changes to the local authority accounting framework in 2017/18, including their effect on the Council's accounting policies, and to the statutory framework for preparing and reporting local authority financial statements (the Accounts and Audit Regulations 2015).

It also highlights the need to achieve faster closure to meet the shortening of the reporting timetable under the Accounts and Audit Regulations 2015 which will, from 2017/18, require unaudited financial statements to be published by the end of May instead of the end of June and audited financial statements to be published by the end of July instead of the end of September.

Finally, it reminds Members that the Audit Committee, as the body in the Council charged with governance, that it will need to formally approve the audited Financial Statements at its July meeting.

Recommendations

The Audit Committee is asked to:

- i. **Note the key accounting issues and main changes to the accounts in 2017/18 listed in Appendix A;**

List of Appendices Included

Appendix A – Key accounting issues and changes to the accounts in 2017/18

Background Papers

CIPFA Code of Practice on Local Authority Accounting 2017/18
Accounts and Audit Regulations 2015

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

Closure of the Accounts 2017/18

1. Recommendations

The Audit Committee is asked to:

- i. Note the key accounting issues and main changes to the accounts in 2017/18 listed in Appendix A;**

2. Background

- 2.1 The Code of Practice on Local Authority Accounting (the Code) together with the Accounts and Audit Regulations set the accounting and statutory framework for local authority financial reporting.
- 2.2 The Code is based on internationally recognised accounting standards (International Financial Reporting Standards). These form the basis for large private sector companies financial reporting. However, the funding of Local Government by central government and local tax payers is in some key aspects very different from that under IFRS. This makes local authority financial statements complex and difficult to interpret due to the need to reconcile the Council's financial performance and financial position under IFRS with that under the arrangements for funding Local Government.
- 2.3 The statutory framework is bringing about a major change to the timetable for local authority financial reporting which will require faster closure. Under the Accounts and Audit Regulations 2015, with effect from 2017/18, unaudited financial statements will have to be published by the end of May instead of currently the end of June and audited financial statements by the end of July instead of currently the end of September. The challenge for local authorities will therefore be to achieve the shorter reporting timetable whilst at the same maintaining financial statements of good quality.
- 2.4 CIPFA recognises the major challenge this represents and is looking to support local authorities by:
 - Encouraging local authorities to focus on material items only in their financial reporting.
- 2.5 Materiality for financial reporting purposes is key. It determines the amount by which items or disclosures within the financial statements would need to be mis-stated before it would influence the understanding or a decision a reader of the accounts might make. An item is not material if its omission or mis-statement would not influence such decisions or understanding. For audit purposes, KPMG's overall materiality in 2016/17 was £11 million with differences of less than £550,000 being considered trivial.

3. Key Issues

3.1 Faster closure

3.1.1 Bringing forward the timetable for publishing the unaudited financial statements by one month and for publishing the audited financial statements by two months represents a major challenge for all local authorities and will mean they will need to adopt radically different approaches if the tighter deadlines are to be achieved. It will entail having to re-engineer processes to:

- Better align in year and end of year reporting processes
- Bring forward work wherever possible
- Place greater reliance on the use of estimates
- Automate or streamline processes wherever possible

These various workstreams were implemented during 2015/16 and 2016/17 in preparation for 2017/18.

3.2 Accounts and Audit Regulations 2015 – Local elector rights

3.2.1 The Local Audit and Accountability Act 2014 confers on local electors the right to inspect the accounting records, books, deeds, vouchers, contracts, bills and other documentation relating to the financial year in question. It also gives them the right to question the auditor about the accounting records or make a formal objection on a matter of public interest or because they think an item of account may be unlawful.

3.2.2 Under the Accounts and Audit Regulations 2015, local electors can only exercise their rights of inspection and to question the auditor or make formal objections for a single period of 30 working days commencing the day after the unaudited accounts have been published.

As accountability to the local electorate is an important part of the governance of the Council, notice of the inspection period will be advertised on the Council's website in advance of the unaudited financial statements being published.

3.2.3 A further consideration is that in order for the inspection period to commence, the Annual Governance Statement and Narrative Report (introduced by the Accounts and Audit Regulations 2015) will need to be published alongside the Council's unaudited financial statements on the Council's website. The timetable for preparing the Annual Governance Statement and Narrative Report is therefore being co-ordinated with the publication of the unaudited financial statements to meet this requirement.

3.3 Local Authority Accounting Framework

- 3.3.1 There are no major changes to the Local Authority Accounting Framework in 2017/18.
- 3.3.2 Major changes to service delivery that have taken place in 2017/18 will also have a bearing on the financial statements. This includes the continuing effect of schools converting to academies.
- 3.3.3 The likely impact of the changes described in 3.3.1 to 3.3.2 above are listed in Appendix A.

4. Options considered and recommended proposal

- 4.1 There is no discretion on whether to comply with the Code or the Accounts and Audit Regulations. The purpose of the recommendations is simply for Audit Committee to note the changes to the local authority accounting framework in 2017/18 and to note the actions being taken by officers to ensure that they are being implemented.

5. Consultation

- 5.1 Close liaison continues to be maintained with the Council's External Auditors to ensure that complex accounting issues and action taken in response to changes to the local authority accounting framework are agreed in advance of the financial statements being prepared.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The statutory deadline for publishing the unaudited financial statements is 31 May. The statutory deadline for publishing the audited financial statements is 31 July.

7. Financial and Procurement Implications

- 7.1 There are no financial or procurement implications directly associated with closure of the accounts, other than the impact on the audit fee of having good quality financial statements and supporting working papers which meet KPMG's expectations.

8. Legal Implications

- 8.1 None, other than ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.

9. Human Resources Implications

9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

12.1 The NHS requires information on how the pooled budgets operated under the Better Care Fund have been spent to an earlier timetable than that of the Council. Arrangements have been made to ensure this earlier timetable is met. There are no other implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

13.1 Robust project management arrangements have been put in place to ensure that the timetable is adhered to and quality standards met.

14. Accountable Officer(s)

Judith Badger (Strategic Director of Finance & Customer Services)

Approvals Obtained from:-

Strategic Director of Finance & Customer Services:- Judith Badger

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KEY ACCOUNTING ISSUES / CHANGES TO THE ACCOUNTS IN 2017/18

Area of accounts	Issue	Action taken
Narrative Report	The Narrative Report replaced the Explanatory Foreword in 2015/16. The purpose of the Narrative Report is wider than the Explanatory Foreword in that in addition to providing commentary on the Council's financial performance in the year it should also provide commentary on the Council's key strengths and resources and progress against its corporate objectives. The timetable for production of the Narrative report needs to be brought forward in line with the date the unaudited financial statements are due to be published.	Colleagues responsible for preparing the Narrative Report alerted to this requirement.
Commencement of local electors rights	In order for the inspection period to commence, the Annual Governance Statement and Narrative Report will need to be published alongside the Council's unaudited financial statements. The timetable for their preparation therefore needs to be brought forward in line with the date the unaudited financial statements are due to be published.	Colleagues responsible for preparing the Annual Governance Statement alerted to this requirement.
Schools converting to academy	<p>During the course of 2017/18, a further 17 schools are expected to convert to an academy. The impact on the Council's balance sheet and income and expenditure has yet to be determined but is likely to be material.</p> <p>By way of comparison, in 2016/17, the 15 schools which converted to an academy had an aggregate schools budget of £19.8m in the year prior to conversion.</p>	The Narrative Report will highlight the impact.