Rotherham Metropolitan Borough Council

Select report type
Audit Committee

Committee Name and Date of Committee Meeting
Audit Committee – 29 January 2019

Report Title
Closure of the Accounts 2018/19

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 and Customer Services

Report Author(s)
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Ward(s) Affected
Borough-Wide or Choose an item.
Choose an item.

Report 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 2018/19, 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).

The report also reminds Members that the Audit Committee, as the body in the Council charged with governance, will need to formally approve the audited Statement of Accounts at its July meeting.

Recommendations

1. Audit Committee is asked to note the key accounting issues and main changes to the accounts in 2018/19 listed in Appendix A;

List of Appendices Included

Appendix 1 Appendix A – Key accounting issues and changes to the accounts in 2018/19

Background Papers
CIPFA Code of Practice on Local Authority Accounting 2018/19
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 2018/19

1. Background

1.1 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.

1.2 The Code is based on internationally recognised accounting standards (International Financial Reporting Standards (IFRS). 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.

1.3 The introduction of the faster closedown requirements from 2017/18 presents challenges and as part of meeting the challenges CIPFA encourage local authorities to focus on material items only in their financial reporting. Materiality for financial reporting purposes is fundamental. It determines the amount by which items or disclosures within the financial statements would need to be misstated 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 misstatement would not influence such decisions or understanding. For audit purposes, Grant Thornton's overall materiality for the 2018/19's accounts is £10.5 million with differences of less than £525,000 being considered trivial.

2. Key Issues

Faster closure

2.1 The decision to bring 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 has resulted in a need to adopt radically different approaches to ensure that the tighter deadlines are to be achieved. It has meant 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

2.2 The Council successfully met the 2017/18 timeframes in closing its accounts last year. It has continued to review internal procedures from lessons learned in order to streamline processes and improve the quality of the closedown processes and procedures.

Accounts and Audit Regulations 2015 – Local elector rights

2.3 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.

2.4 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.

2.5 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.

2.6 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 draft unaudited Statement of Accounts to meet this requirement.

Local Authority Accounting Framework

2.7 Three International Financial Reporting Standards (IFRS's) were proposed to be updated and adopted during the course of 2018/19, with a view to them being adhered to as part of the 2018/19 closure of accounts. These are listed below, with their potential impact, and any action taken by the Council to manage their impact detailed in Appendix A.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

2.8 Major changes to service delivery that have taken place in 2018/19 will also have a bearing on the financial statements. This includes the continuing effect of schools converting to academies.

3. Options considered and recommended proposal

3.1 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 2018/19 and to note the actions being taken by officers to ensure that they are being implemented.

4. Consultation on proposal

4.1 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.

5. Timetable and Accountability for Implementing this Decision

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

6. Financial and Procurement Advice and Implications (to be written by the relevant Head of Finance and the Head of Procurement on behalf of s151 Officer)

6.1 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 Grant Thornton's expectations.

7. Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)

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

8. Human Resources Advice and Implications

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

9. Implications for Children and Young People and Vulnerable Adults

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

10. Equalities and Human Rights Advice and Implications

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

11. Implications for Partners

11.1 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.

12. Risks and Mitigation

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

13. Accountable Officer(s)

Judith Badger (Strategic Director of Finance & Customer Services)

Approvals obtained on behalf of:-

	Named Officer	**Date**
Chief Executive		Click here to enter a date.
Strategic Director of Finance & Customer Services (S.151 Officer)	Graham Saxton	18/01/19
Assistant Director of Legal Services (Monitoring Officer)	Stuart Fletcher	17/01/19
Assistant Director of Human Resources (if appropriate)		Click here to enter a date.
Head of Human Resources (if appropriate)		Click here to enter a date.

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This report is published on the Council's website.

Appendix A

KEY ACCOUNTING ISSUES / CHANGES TO THE ACCOUNTS IN 2018/19

<table>
<tr><th>Area of accounts</th><th>Issue</th><th>Action taken</th></tr>
<tr><td>IFRS 9 Financial Instruments</td><td>The changes to IFRS 9 are primarily a re-classification exercise, not a revaluation exercise. They lead to a change of categories for investment assets, as detailed below;

<table><tr><th>Old</th><th>New</th></tr><tr><td>Loans & Receivables</td><td>Amortised Cost</td></tr><tr><td>Available for Sale</td><td>Fair Value through Comprehensive Income (FVCI)</td></tr><tr><td>Fair Value through Profit and Loss</td><td>Fair Value through Profit and Loss (FVPL)</td></tr></table>
The new categories do not map across perfectly and focus on two criteria, is the investment solely for principal and interest (SPPI), and is it part of the authority’s business model. The aim of the change is to remove any room for interpretation within the categories and asses if the authority’s investments are part of its business model.

The changes also bring about a new Expected Credit Loss model (ECL). This is a change from historical practice whereby an event would happen, for instance a bank fails, and then a provision is made against the likely loss. Under the new ECL Model the change is that the event need not have occurred, it is the expectation of loss against the particular asset, that would lead to a provision being taken.</td><td>The new IFRS has been reviewed internally and with our Treasury Management advisors, to fully understand its implications. Given the Council’s low risk investment strategy the impact of the new IFRS will be minimal, with a low likelihood of new provisions being required for 2018/19 as part of the new ECL model.

Accounting policies and Statement of Account Templates have been updated accordingly.</td></tr>
<tr><td>IFRS 15 Revenue from Contracts with Customers</td><td>This historically private sector IFRS has now been adopted into Public Sector accounting. It’s core principles relate to the recognitions of income from contracts with customers in the period to which it relates. As the Council adheres to the accruals concept, it already complies with this new standard.</td><td>The new code shouldn’t require any changes to the Council’s current accounting practices, or Statement of Accounts. This has been discussed with our new external auditors who are of the same view.</td></tr>
<tr><td>IFRS 16 Leases</td><td>IFRS 16 removes the previous lease classifications of operating and finance leases for lessees and it requires that a right-of-use asset be recognised for all leases (there are exemptions for short-term and low value leases) with a</td><td>Initial assessments of any operational leases the Council holds have been carried out, further</td></tr>
</table>

	corresponding lease liability representing the lessee's obligation to make lease payments for the asset. **This has now been deferred until April 2020 following a decision made by the CIPFA/LASAAC Local Authority Accounting Board in December 2018.**	work will be required to ensure the Council is compliant by April 2020.
Schools converting to academy	During the course of 2018/19, a further 9 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. By way of comparison, in 2017/18, the 14 schools which converted to an academy, removed a total value of £42.828m from the Council's balance sheet.	The Narrative Report will highlight the impact.