

**Committee Name and Date of Committee Meeting**

Audit Committee – 04 February 2020

**Report Title**

Closure of the Accounts 2019/20

**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 2019/20, 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 2019/20 listed in Appendix A;

## **List of Appendices Included**

Appendix A – Key accounting issues and changes to the accounts in 2019/20  
Appendix B RMBC Accounting Policies

## **Background Papers**

CIPFA Code of Practice on Local Authority Accounting 2019/20  
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 2019/20**

### **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 2019/20's accounts is £9 million with differences of less than £450,000 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 2018/19 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. However it should be noted that, as per the Grant Thornton Audit plan for 2019/20, the volume of audit review and testing that the external auditors will now have to carry out will place additional strain on the Council's procedures, resources and controls in meeting the faster closure deadline.

### **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 The Council must disclose this financial year the expected balance sheet impact of the new IFRS 16 leases, that will see the removal of operation leases from April 2020, with lessees expected to recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. Further details of the Council's work to prepare for IFRS 16 are detailed at appendix A.
- 2.8 Major changes to service delivery that have taken place in 2019/20 will also have a bearing on the financial statements. This includes the continuing effect of schools converting to academies.

2.9 The Council's Statement of Accounting Policies is attached as Appendix B.

### **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 2019/20 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:-

	<b>Named Officer</b>	<b>Date</b>
Chief Executive		Click here to enter a date.
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	27/01/20
Head of Legal Services (Monitoring Officer)	Bal Nahal	27/01/20
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 2019/20

Area of accounts	Issue	Action taken
IFRS 16 Leases	<p>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 corresponding lease liability representing the lessee's obligation to make lease payments for the asset.</p> <p><b>This has now been deferred until April 2020 following a decision made by the CIPFA/LASAAC Local Authority Accounting Board in December 2018.</b></p> <p><b>However as part of the Councils accounts for 2019/20 it must disclose the estimated impact of IFRS 16.</b></p>	<p>Initial assessments of any operational leases the Council holds have been carried out, with a view to preparing draft note for the accounts on the impact of the IFRS, further work will be required to ensure the Council is compliant by April 2020.</p>
Schools converting to academy	<p>During the course of 2019/20, 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.</p>	<p>The Narrative Report will highlight the impact.</p>