ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**14 March 2012**
3.	**Title:**	**Closure of Accounts 2011/12**
4.	**Directorate:**	**Resources**

5. Summary

The Council's annual Financial Statements are the primary means by which local authorities are accountable to local and national stakeholders. It is therefore important that the Council's accounts are prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

As highlighted in KPMG's 2011/12 external audit plan, the Council has a record of efficient and well–controlled closedown and accounts preparation.

The Resources Directorate is keen to maintain the high standard of financial reporting but there remain significant challenges to repeating this in 2011/12.

This report brings to Members attention the main changes to accounting standards and disclosure requirements in 2011/12; their effect on the Council's accounting policies; and, the project management arrangements that will be employed to secure timely closure and produce 2011/12 Financial Statements that are fully compliant with the Accounting Code.

It also reminds Members that the Audit Committee will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish to receive the unaudited Financial Statements and Annual Governance Statement for information.

6. Recommendations

That Audit Committee note:

- **the changes to the Council's accounting policies as a result of the changes to the accounting framework**
- **the project management arrangements put in place to achieve timely closedown and to produce 2011/12 Financial Statements that are compliant with the Accounting Code**
- **the requirement for the Audit Committee to formally approve the audited 2011/12 Financial Statements at its September meeting and that it receives for information the unaudited Financial Statements and Annual Governance Statement at its July meeting**

7. Proposals and Details

In 2010/11, the Council successfully implemented major changes in accounting and presentation in its accounts as a result of the adoption of International Financial Reporting Standards (IFRS) in local authority accounting. This drew praise from KPMG.

The local authority accounting framework continues to evolve and it is therefore important that the Council is able to further embed IFRS compliant practices and respond to ongoing changes.

7.1 Changes to the accounting framework in 2011/12

The volume of changes in 2011/12 is thankfully much reduced compared to last year. The key changes are tabulated in Appendix 1.

Planning for these changes has already commenced and their delivery will be monitored as closedown progresses through the project management processes described below.

7.2 Changes to the Council's accounting policies resulting from the 2011/12 Accounting Code

Heritage Assets

The only potential change to the Council's accounting policies necessitated by the changes to the accounting framework relates to heritage assets.

Officers are at present in discussion with KPMG over whether the Council needs to adopt a policy for heritage assets. Whilst Culture and Leisure have embarked on compiling an inventory, there is currently no reliable information on the historical cost or valuation of heritage assets and the Council is reluctant, at a time of severe budget pressures, to engage the services of a professional valuer to obtain the required information. It is, therefore, unclear at this stage how material heritage assets might be and, hence, whether or not there is a need for the Council to adopt a policy.

Should it prove necessary to adopt a policy this will brought back to Audit Committee's attention together with its financial effect as part of preparing the unaudited accounts.

Minimum Revenue Provision (MRP)

The policy for charging revenue with a prudent provision for the repayment of debt remains unchanged as being over the estimated useful life of the asset for which the borrowing was undertaken. Members will recall that officers presented for approval at the February meeting of the Committee, an amendment to the existing arrangements which would permit either of the two accepted methods specified in the statutory guidance on MRP for achieving this end, to be used: the equal instalment method or the annuity method.

7.3 Project management arrangements and reporting timetable

The project management arrangements which resulted in the successful implementation of IFRS in 2010/11 will again be employed in closing down 2011/12.

This will entail setting up an accounts closure project group to monitor delivery against an accounts closure project plan and to ensure that specific risks arising from accounting and presentational changes or complex material transactions entered into by the Council during the year are addressed early on in closedown, including, agreement on accounting treatment with KPMG where appropriate.

Members may recall that prior to 2010/11, the Accounts and Audit Regulations required that the unaudited Financial Statements be approved by Members by 30 June and the audited Financial Statements by 30 September. The Accounts and Audit Regulations 2011 removed the requirement for Members to formally approve the unaudited Financial Statements.

Audit Committee resolved last year, that in order to maintain strong governance over financial reporting it wished to continue to receive the unaudited Financial Statements for information after they have been authorised and released for publication.

Members also resolved that they wished the process for preparing and approving the Annual Governance Statement to remain synchronised with that for financial reporting.

Assuming Members wish this to be the case, the key dates Members need to be aware of are:

- 30 June 2012 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Strategic Director of Resources.

- July 2012 Audit Committee – unaudited 2011/12 Financial Statements and Annual Governance Statement to be presented to Audit Committee for information.

- September 2012 Audit Committee – audited Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report which sets out the findings of their audit of the Financial Statements and review of the Annual Governance Statement.

8. Finance

No additional financial implications beyond current budgetary provision is anticipated.

9. Risks and Uncertainties

The preparation, approval and publication of the Council's annual Financial Statements remain a cornerstone of financial accountability for the local electorate, Members and other stakeholders.

Failure to comply with the Accounts and Audit Regulations, other relevant legislation and local authority accounting requirements as set out in the Code of Practice on Local Authority Accounting may indicate a weakness in financial reporting whereas compliance demonstrates strong governance is in place and ensures best practice is being followed.

The demands on Financial Services to achieve other key objectives at the same time that the accounts are being closed down means that there is a pressure on resources. Accounts closure will need to be given sufficient priority and adequately resourced if previous high standards are to be maintained.

It is also important to recognise that accounts closure is corporate in nature and not just a Finance function. Input is required from staff across the Council and it is crucial those directly involved understand their role and the importance of delivering to the agreed timetable. Finance Managers have already disseminated information to key non finance staff and explained the requirements.

10. Policy and Performance Agenda Implications

None other than reputational risk referred to above from non compliance.

11. Background Papers and Consultation

Code of Practice on Local Authority Accounting 2011/12
Accounts and Audit Regulations 2011
Audit Committee – February 2011& 2012

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Appendix 1

Key changes to the accounting framework in 2011/12

Area of accounts	Change in accounting practice / new disclosure required	Action taken
Heritage assets	In 2011/12, heritage assets will be required to be recognised on the balance sheet as a separate asset category for the first time. Heritage assets are assets which have historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Heritage assets should be carried at valuation but may be carried at historical cost where it is not practicable to establish a valuation and historical cost information is available. Where there is no information available on either cost or value, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, there is no requirement to recognise heritage assets on the Balance Sheet. There should, however, be appropriate disclosure of the types of heritage asset held.	Approach to accounting for heritage assets being considered with KPMG
Staff exit packages	The 2011/12 Code introduces a requirement to report summary information in relation to exit packages. A new note is to be provided on the number of staff exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. The note shall also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations).	Arrangements in place to collect data to enable information on staff exit packages to be disclosed in 2011/12 and prior year comparatives
Related party transactions	Related party transactions are ones which are not arm’s length due to one party to a transaction being able to control or exert significant influence over the other.	Plans in place for related party transactions note to be reviewed against

	Further clarity has been provided in 2011/12 on the definition of a related party and disclosure requirements in local authority accounts	latest guidance
Disposal of non current assets and discontinued operations	The Statement of Accounts should enable users of the financial statements to evaluate the financial effects of any discontinued operations or disposals of non current assets. A discontinued operation is a major activity which has ceased completely during the financial year or which the Council is committed to dispose of within 2012/13. Additional information is required in 2011/12 to enable users of the financial statements to fully evaluate the financial effects of any such transactions.	There are plans in place to ensure that disposals of non current assets which have a material effect on the accounts are adequately disclosed.
Financial instruments – soft loans	Soft loans are loans advanced by the Council to third parties at interest rates below the prevailing market rate. Additional disclosures are required where the level of soft loans granted by an authority is material.	The Council does not have any soft loans.
Comprehensive Income & Expenditure Account	The Culture, Environment, Regulatory and Planning Services expenditure head in the Comprehensive Income and Expenditure Account is being split into three separate expenditure heads in 2011/12: • Cultural and Related Services • Environment and Regulatory Services, and • Planning Services.	Work being carried out to split Cultural, Environment & Planning service head into its three constituent parts and to restate prior year comparatives