ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**11th March 2015**
3.	**Title:**	**Closure of Accounts 2014/15**
4.	**Directorate:**	**Resources and Transformation**

5. Summary

The principal objective of the Council's annual financial statements is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of local and national stakeholders in assessing the Council's stewardship of its resources. 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.

This report brings to Members attention the main changes to accounting standards and disclosure requirements in 2014/15 and their effect on the Council's accounting policies.

It also highlights the steps being taken to achieve earlier closure in response to the government's stated intention of bringing forward the local government reporting timetable in 2017/18 whilst still maintaining high quality Financial Statements that are fully compliant with the Code of Practice on Local Authority Accounting (the Code).

Finally, it reminds Members that the Audit Committee, as the body charged with governance, will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish the unaudited Financial Statements to be presented to Audit Committee at its meeting in July for information.

6. Recommendations

Audit Committee is asked to:

- **Note the changes to the Council's accounting policies**
- **Note the requirement for the Audit Committee to formally approve the audited 2014/15 Financial Statements at its September meeting**
- **Approve the receipt for information of the unaudited Financial Statements at its July meeting**

7. Proposals

Local authority accounting operates in a dynamic environment which is subject to ongoing changes to accounting standards and legislative requirements which impact on local government financial reporting.

It is important that the Council continues to respond to these changes promptly and effectively to ensure that the financial information used by management and stakeholders faithfully represents the Council's true financial position.

The Government has signalled its intention to bring forward the date by which the Council's annual Statement of Accounts must be prepared and published. Current regulations require unaudited accounts to be prepared by the 30 June and audited accounts to be published by 30 September. New regulations which are likely to be laid in 2015 are expected to bring these dates forward to 31 May and 31 July respectively.

The new Regulations are expected to come into effect for the financial year 2017/18 but authorities are being strongly encouraged to bring about the transition earlier so they are fully geared up in advance of the change.

Accordingly, the 2014/15 closedown timetable has been designed with this in mind by looking to carry out procedures previously undertaken at year end in year wherever possible and to review and re-engineer year end processes where necessary to achieve a quicker closedown, for example, through greater reliance on estimation techniques.

7.1 Key accounting issues and changes to the accounting framework in 2014/15

The key accounting issues and changes to the accounting framework in 2014/15 are tabulated in Appendix 1.

Officers have continued to liaise closely with our external auditors, KPMG, to ensure that they are satisfied that these changes and the key risks identified in their External Audit Plan are being properly addressed and will continue to do so during closedown and over the course of their audit.

7.2 Changes to the Council's accounting policies in 2014/15

The Code has adopted the following new accounting standards in 2014/15:

- A suite of new accounting standards relating to group accounts, and
- Minor changes to the presentation requirements where Financial Assets and Financial Liabilities are offset

In addition, the Code has provided clarification on existing accounting standards as part of the Annual Improvements to IFRS programme. These include:

- Presentation of local authority maintained schools in the Council's accounts, and
- Presentation of the effect of schools converting to academies on the Council's accounts

At present, the Council does not prepare group accounts on the grounds that its interests in subsidiaries, joint ventures and associated companies are not material in aggregate. We do not anticipate that the new suite of accounting standards will change this.

Changes made to accounting policies in response to the new standards, clarifications under annual improvements cycle or otherwise are summarised in Appendix 2 for Members information.

Members should also be aware that the 2014/15 Code highlights the fact that adoption of IFRS 13 Fair Value Measurement has been deferred for a further year until 2015/16. The adoption of IFRS 13 will potentially have a material impact on the value of assets and liabilities carried in the balance sheet at fair value, for example, Property, Plant and Equipment and most likely require 2014/15 figures to be restated. It is not possible at this stage to quantify what the potential effect might be.

7.3 Financial reporting – Audit Committee's role

The Accounts and Audit Regulations 2011 removed the requirement for Members to formally approve the unaudited Financial Statements. Members are now only required to formally approve the Financial Statements post audit after receiving the external auditors report on their audit findings (ISA 260 report).

Audit Committee resolved previously 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.

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

- 30 June 2014 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Interim Strategic Director of Resources and Transformation.

- July 2015 Audit Committee – unaudited 2014/15 Financial Statements to be presented to Audit Committee for information.

- September 2015 Audit Committee – audited 2014/15 Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report.

8. Finance

No additional resource requirements identified to achieve earlier closedown.

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 may indicate a weakness in financial reporting whereas compliance demonstrates strong governance is in place and ensures best practice is being followed.

As in previous years, in order to minimise the risk of these objectives not being met, the closedown process and production of the accounts will be project managed and subject to quality assurance arrangements.

10. Policy and Performance Agenda Implications

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

11. Background Papers and Consultation

Code of Practice on Local Authority Accounting 2014/15
Service Reporting Code of Practice 2014/15
Accounts and Audit Regulations 2011
Audit Committee – March 2013

Simon Tompkins, Finance Manager, extension 54513
simon.tompkins@rotherham.gov.uk

Appendix 1

Key accounting issues / changes in 2014/15

Area of accounts	Issue	Action taken
Corporate governance	The costs of the corporate governance inspection will be recognised in the 2014/15 accounts provided a reliable estimate can be obtained	DCLG contacted to ask for an estimate of the likely costs
Child Sexual Exploitation Claims	Insurance liabilities, including those relating to Child Sexual Exploitation, will be estimated by reference to past claims history and expert legal advice as appropriate.	Methodology for estimating insurance liabilities determined
Group accounts / Accounting for collaboration	The 2014/15 Code adopted a suite of new accounting standards in relation to subsidiaries over which the Council has control, joint arrangements where the Council shares control with another party, and associates where the Council is able to exert a significant influence. It is not thought likely that the changes will lead to the need to produce group accounts but may result in changes to the extent and nature of the disclosure relating to entities in which the Council has an interest.	Accounting policy 28 updated
Group accounts – local authority maintained schools	CIPFA has completed a review of the way in which local authority maintained schools should be presented in a local education authority's accounts. The income and expenditure, assets and liabilities, and cashflows of such schools' will continue to be consolidated into the Council's accounts as previously, but there will be a need to reassess whether Foundation trust school buildings should be on the Council's balance sheet. Additional summary disclosure will also be provided of the income, expenditure, surplus or deficit and numbers of local authority school by category of school.	Accounting Policy 28 updated
Schools converting to academies	The Code has clarified that the transfers of functions to other public sector bodies should be accounted for by transferring assets and liabilities at their carrying value at the date of transfer unless otherwise agreed. The financial effect of functions transferred to another public sector body should also be disclosed separately in the comparative year. We are currently considering how this might impact	Accounting Policy 29 updated

	on how the financial consequences of local authority maintained schools which have converted to academies should be presented in the accounts.	
MRP	The Council is required to set aside from revenue a prudent provision for the repayment of debt (MRP). The Accounting Policy has been simplified to state that it is determined in accordance with DCLG's capital financing regulations and related statutory guidance.	Accounting Policy 15 updated
PFI lifecycle replacement costs	Where the profile of actual expenditure incurred by a PFI operator differs from that planned the difference should be accounted for as a prepayment or accrued liability as appropriate. The Accounting Policy has been updated to make this clear	Accounting Policy 17 updated
HRA interest payable	The HRA bears a fair and equitable share of the overall interest incurred on Council borrowings based on the HRA's underlying borrowing requirement This has been inserted into the Accounting policy for the sake of clarity	Accounting Policy 22 updated

15 Charges to revenue for non current assets

Prudent provision (MRP) is made annually for the repayment of debt relating to capital expenditure financed by borrowing or credit arrangements. The amount charged is determined having regard to the relevant statutory requirements and related guidance on MRP issued by DCLG.

17 PFI and PPP arrangements

Lifecycle replacement costs are accounted for as they are incurred. Where the profile of lifecycle expenditure actually incurred by the PFI operator differs significantly from the projected profile included within the PFI model adjustments are made to account for the difference. A prepayment is recognised where planned expenditure paid for through the unitary payment exceeds the actual amount incurred by the PFI operator. An additional liability is recognised where planned expenditure is less than that actually incurred. The prepayment / additional liability is carried forward in the balance sheet until the expenditure is actually incurred / settled, or , in the case of a prepayment when there is no longer an expectation that it will eventually be incurred by the PFI operator at which point it is charged to revenue. Lifecycle replacement costs which represent the refurbishment or replacement of major components are capitalised as Property, Plant and Equipment in accordance with Accounting Policy 14.

22 Financial Instruments

The amount of interest charged to the HRA is determined on a fair and equitable share basis by reference to the HRA's Capital Financing Requirement.

28 Interests in companies and other entities

Where the Council exercises control, shares control or exerts a significant influence over another entity, and the Council's interests are material in aggregate, it will prepare Group Accounts. The Council's interest in another entity can be contractual or non-contractual, and may be evidenced by, but is not limited to, the holding of equity or debt instruments in the entity as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

The Council has control over another entity, where it is able to direct the activities of that entity such that it is has exposure to or rights over variable returns and can use its power over the entity to effect the returns it receives.

Shared control with another party or parties in a joint venture arises where decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control including the Council.

The Council can exert a significant influence over an associate where the Council has the power to participate in the financial and operating policy decisions of an entity which fall short of control or joint control.

The Council's single entity financial statements include the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools within the control of the Council..

Interests in companies and other entities are recorded in the Council's balance sheet as financial assets at cost, less any provision for losses.

29 Acquisitions and discontinued operations

Transfers of functions to or from other public sector bodies are accounted for with effect from the date of transfer. Assets and liabilities are transferred at their carrying value at the date of transfer unless otherwise agreed and the balance sheet restated to reflect the value of assets brought onto or removed from the balance sheet. The financial effect of functions transferred to the Council is disclosed separately in the current year. The financial effect of functions transferred to another public sector body is disclosed separately in the comparative year.

A function in this context is an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that service or business operation.

These principles apply to local authority maintained schools which convert to academies during the year and therefore cease to be under local authority control. School balances are transferred to the academy from the Council at their carrying amount at the date of conversion unless the school has a deficit for which the Council retains responsibility, the aggregate effect of school balances transferred in the year being disclosed in the Movement in Reserves Statement

Discontinued operations are activities that cease completely. Transfers of functions from one public sector body to another are not discontinued operations. Income and expenditure relating to discontinued operations are presented separately on the face of the Comprehensive Income and Expenditure Statement and the Balance Sheet