

Committee Name and Date of Committee Meeting

Audit Committee – 23 March 2021

Report Title

Closure of the Accounts 2020/21

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

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 2020/21, 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. This is covered in more detail elsewhere on the agenda and has been revised to the end of September for the next two years.

Recommendations

1. Audit Committee is asked to note the key accounting issues and main changes to the accounts in 2020/21 listed in Appendix A;

List of Appendices Included

Appendix A – Key accounting issues and changes to the accounts in 2020/21
Appendix B RMBC Accounting Policies

Background Papers

CIPFA Code of Practice on Local Authority Accounting 2020/21
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 2020/21

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 presented 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. The Council's materiality level for 2020/21 hasn't yet been confirmed by Grant Thornton but for information the overall materiality for the 2019/20 accounts was £9 million, with differences of less than £450,000 being considered trivial.

2. Key Issues

Timetable

- 2.1 Although the historic decision to bring forward the timetable for publishing Local Authorities financial statements was a major challenge the Council successfully met the 2018/19 timeframes in closing its accounts. However, members will be aware that due to the unprecedented circumstances around at the time of last year's closure of the accounts, the closure of accounts deadlines were extended for the year 2019/20. The Council successfully produced its accounts within the revised timeframes.

- 2.2 It should also be noted that the volume of audit review, challenge and testing that the external auditors now have to carry out also places additional strain on the Council's resources. This additional strain would be further exacerbated by the continuing challenge that the Covid-19 pandemic places on the resources of the Councils finance function. However, the timescales for the publication of the financial statements have now been extended for the next two years. The Accounts and Audit (amendment) Regulations 2021 (SI no 2021/263) will come into force on 31 March 2021 and will revise the statutory deadline for publishing the unaudited financial statements to 31st July, followed by the statutory deadline for publishing the audited financial statements by 30 September.

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 decision has been taken to delay the implementation of IFRS 16 within Local Authorities for a further year. This disclosure, which will see the removal of operational leases, 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, will now be reflected in the accounts for 2021/22.

- 2.8 Major changes to service delivery that have taken place in 2020/21 will also have a bearing on the financial statements. This includes the continuing effect of schools converting to academies and the impact of Covid 19.
- 2.9 The Council's Statement of Accounting Policies is attached as Appendix B. These policies are reviewed and updated where necessary, and it should be noted that these were amended where appropriate following the "technical review" of the accounts carried out by the external auditors last year as part of the audit process.

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 2020/21 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 Accounts and Audit (amendment) Regulations 2021 (SI no 2021/263) will come into force on 31 March 2021 and will revise the statutory deadline for publishing the unaudited financial statements to 31st July, followed by the statutory deadline for publishing the audited financial statements by 30 September. These revised deadlines will be in place for two financial years.

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	Click here to enter a date.
Assistant Director of Legal Services (Monitoring Officer)	Named officer	Click here to enter a date.
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

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>This has now been further deferred until April 2022 following a decision made by the CIPFA/LASAAC Local Authority Accounting Board in December 2020. However, as part of the Councils accounts for 2021/22 it must disclose the estimated impact of IFRS 16.</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 2022.
Schools converting to academy	During the course of 2020/21, a further 8 primary 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.	The Narrative Report will highlight the impact.
Covid 19 Grants	The Council has received a high number of high value government grants throughout the financial year in recognition of the financial consequences of the pandemic. The accounting treatment of these grants will vary depending on their purpose. A number of these grants will need to be flagged as exceptional items due to their value as they would otherwise distort the understanding of the accounts.	Thorough analysis of each grant and the supporting information to ensure these are presented accurately in the accounts.