

AUDIT AND RISK COMMITTEE

7 April 2015

EMERGING ISSUES FOR THE CLOSURE OF ACCOUNTS 2014/15

Report of the Director of Resources

STRATEGIC AIM:	All
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1. PURPOSE OF THE REPORT

- 1.1 To inform the Committee of the emerging issues that will have an impact on the production of the Statement of Accounts for 2014/15.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the contents of this report.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 To ensure that the Committee is aware of plans in place to ensure effective and timely closure of accounts.

4. APPROVAL OF THE ACCOUNTS

- 4.1 The Statement of Accounts (SoA) must be certified by the Chief Financial Officer (i.e. the Assistant Director – Finance) by 30 June each year, for submission to the external auditor.
- 4.2 It is the responsibility of the Audit and Risk Committee to consider the SoA, after examination by the external auditor, and to approve it no later than 30 September each year.

5. THE CLOSURE PROCESS, EMERGING ISSUES AND KEY DATES

- 5.1 Senior members of the Finance Team have attended either a CIPFA (Chartered Institute of Public Finance and Accountancy) or a KPMG final accounts workshop in early 2015 to learn about any changes required in preparing the SoA. The SoA is prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting. Having reviewed the Code for 2014/15 there are no significant changes from last year. Any minor changes will be incorporated into the closedown process if appropriate.
- 5.2 The most noteworthy changes will be as a result of changes in interpretation of IFRS 10 (Consolidated Financial Statements) with specific implications for school assets.

- 5.3** The change required in adopting IFRS 10 is to ensure schools assets, liabilities, reserves and cashflows are consolidated into the Councils SoA. The main change will be in relation to Non-current assets, as potentially the Council will need to recognise additional school assets on its Balance Sheet that were previously not as, in the main, only Council/LEA schools are included on the Councils Balance Sheet.
- 5.4** Previously, the accounting basis was decided by a test of risk and rewards. If a Governing body of a school was responsible for the running of the school, repairs and maintenance on the asset and also retained the income generated from the building, the asset would not have been consolidated into the Council's account even if the Council was the legal owner. The Council was deemed not to have any control over the asset.
- 5.5** The main change in the tests is the introduction of a new question "Does the Council retain substantive rights over the assets?" In the example above the Council would be deemed to have a substantive right over the asset if it was the legal owner of the freehold of the school. In this case, the asset will be included on Balance Sheet under the consolidation of the schools balances into the Councils SoA.
- 5.6** The only other emerging issue that is noteworthy relates to a change in the way Infrastructure Assets, (e.g. roads, bridges, footpaths and street furniture etc) are valued. The present historic cost-based approach to valuing Infrastructure assets does not show what impact any expenditure has on the condition of the assets and gives a gross value of £38.975m. A historic cost valuation effectively means assets are carried at the valued at the price paid for the asset or the cost of bringing the asset into use.
- 5.7** Using the Depreciated Replacement Cost (DRC) method of valuation will result in assets being valued at the current cost of replacing them with its modern equivalent less any reduction in value for its current state of repair and condition. The valuation of Infrastructure assets using the new methodology is expected to be as high as 5 times the Historic Cost Value. This will have no real impact for the Council.
- 5.8** CIPFA have produced the Code of Practice on Transport Infrastructure Assets to provide guidance on how the revaluation should be undertaken. The change will be introduced from 2016/17 but there will be a need to have the comparative data for 2015/16 figures. A group of officers will be meeting in 2015 to determine what needs to be done and to draw up a timetable for doing the necessary work to ensure that the values for 2015/16 are available for when they are needed.
- 5.9** A detailed timetable for producing the Statement of Accounts for 2014/15 has been completed which will include all elements of the closure process as well as reporting deadlines. Weekly progress meetings will be held during closedown to monitor progress and to identify any problems and/or delays, and these will be escalated if necessary.
- 5.10** The key dates for Members to be aware of are as follows:

- Early June 2015: Q4 Financial Monitoring report presented to Cabinet;
- Mid June 2015: Audit and Risk Committee meeting – an update on the SoA process will be provided;
- 30 June 2015: certification of the draft SoA by the Chief Finance Officer for submission to the external auditor;
- Mid July 2015 (date to be confirmed): External Audit process commences
- Mid July 2015: Financial Outturn position reported to Cabinet – this is an expansion of the Q4 report including all year-end adjustments and demonstrates how the outturn position reconciles to the Income and Expenditure Account within the SoA;
- Early September 2015: Final, audited SoA presented to Audit and Risk Committee for approval, along with the Audit Commission’s Annual Governance Report; and
- 30 September 2015: Audit opinion issued and SoA published.

5.11 It should be noted that these dates are based on last year’s timetable. When the timetable of Council Meetings has been agreed these dates can be confirmed.

5.12 In addition to the formal presentation of the SoA to the Audit and Risk Committee, it is intended that a briefing session will be held in advance of the formal meeting. This was provided last year to assist members in gaining a good enough understanding of the SoA to undertake their role effectively.

6. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Medium	The closedown timetable is always challenging but with preparatory work being done beforehand and close management of the whole process the key deadlines will be met.
Viability	Low	There are no direct implications within this report.
Finance	High	The Statement of Accounts summarise the financial performance and position of the Authority at 31 March 2015.
Profile	Medium	Although the financial position of the Authority is high profile at the current time, there is less public interest in the Statement of Accounts.
Equality and Diversity	Low	Equality Impact Assessment completed, there are no particular issues from this report.

Background Papers

CIPFA Code of Practice on Local Authority Accounting
Closure of Accounts Timetable 2014/15

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.