

**LGSS Statement of Accounts Update**

**To:** LGSS Joint Committee

**Date:** 1<sup>st</sup> June 2017

**From:** LGSS Finance

**Purpose:** To update the Joint Committee on the progress of the 2016-17 LGSS Statement of Accounts

**Recommendation:** That the Joint Committee note and comment on the report.

**1. Background**

- 1.1 Each year LGSS produces an Annual Report, which includes the Statement of Accounts (the LGSS accounts). The LGSS accounts are prepared in addition to the statutory accounts of each partner authority and encompass LGSS income and expenditure from within each of the partner authorities. Whilst the single entity accounts of the three partner local authorities include only the proportion of LGSS attributable to each authority, the LGSS accounts show the combined position across all LGSS operations but excluding the managed budgets that LGSS manages on behalf of the host authorities.
- 1.2 In practice, this means taking transaction level detail for each partner authority and consolidating the information to produce the core financial statements included within the LGSS accounts. This provides a clear trail of the transactional data from the partner authorities general ledgers to the final LGSS accounts that are produced.
- 1.3 To ensure completeness of the LGSS Accounts, the proportion of assets and liabilities relating to LGSS Trading activity held within each authorities accounts are identified, and totalled. Examples of this include invoices raised on behalf of LGSS not yet paid by customers, the net cash balance held by each partner authority, as well as any LGSS specific provisions or reserves that are held within the partner authorities balance sheet. This also includes the associated year end VAT liability or asset incurred by the partner authorities relating to VATable income received and VATable expenditure which is the result of LGSS trading activity.
- 1.4 From 1 April 2015, the implementation of the Local Audit and Accountability Act 2014 has meant that joint committees (such as the arrangement under which LGSS operates) are no longer required to have their accounts separately prepared and audited. Consequently, from the 2015-16 financial year onwards, production of formal

accounts by LGSS is no longer statutorily required. However LGSS has decided to continue to produce accounts as it is committed to accountability and transparency. As these are not statutory accounts they sit outside of the requirements of the Accounts and Audit Regulations 2015, and therefore there is no statutory deadline for publication.

1.5 KPMG have been appointed to audit the accounts of LGSS.

1.6 The LGSS accounts are being produced to the timetable set out below:

Draft accounts prepared	<b>31<sup>st</sup> July 2017</b>
Audit of the accounts to start	<b>End of August 2017</b>
Completion of audit	<b>Mid September 2017</b>
Final Accounts completed and Joint Committee sign off	<b>28<sup>th</sup> September 2017</b>

## **2. Key Changes from Last Year**

2.1 The 2016-17 LGSS Accounts cover the financial year to 31st March 2017, and for the first time include Milton Keynes Council which became an LGSS partner authority on 1st April 2016. This means that the consolidation of data will now come from three partner authorities instead of just the two founding partners as has been the case in previous years. This does therefore add further work and complexity to the preparation of the accounts for 2016-17.

2.2 The LGSS Accounts are prepared using the CIPFA Accounting Code of Practice (the Code), which is updated annually. The most significant change to the Code that is being introduced in the 2016-17 is to the presentation of the Comprehensive Income and Expenditure Statement (CIES).

2.3 The CIES shows revenue expenditure and income for the year, in line with proper accounting practice. In previous years, the Net of Cost of Services within the CIES was broken down into specific service headings (referred to as SeRCOP headings as required by the Code). This was to ensure that all authorities presented their statements in the same way, and to allow comparability between authorities. Whilst this allowed comparability from one authority to another it meant that the link between the financial reporting of the LGSS management accounts and the statutory accounts was difficult to follow, because the financial reporting of the management accounts follows the internal reporting structure whilst the accounts are set out based on the SeRCOP headings. Therefore there has been no direct comparison between the two.

2.4 The change to the Code for 2016-17 allows LGSS to display the Net Cost of Services within the CIES based upon its internal reporting structure rather than using SeRCOP headings. This means that the link between the financial reporting of the management accounts and the final accounts will be clearer to users of the accounts.

### **3. LGSS Law Accounts**

- 3.1 The 2016-17 LGSS Law accounts were the first set of accounts produced for LGSS Law. At the end of the first year of trading, LGSS Law added Central Bedfordshire Council (CBC) as a third shareholder, expanding the number of fee earners within LGSS Law. Therefore whilst both LGSS and LGSS Law currently have three shareholders, their shareholder bases have diverged and as a consequence LGSS and LGSS Law Ltd have developed different governance arrangements.
- 3.2 Since LGSS Law was spun out of the LGSS brand, it has been owned by Northamptonshire County Council and Cambridgeshire County Council and not LGSS. The ownership now goes three ways with the addition of Central Bedfordshire Council.
- 3.3 Some commonality will continue to exist (such as the reporting of the financial statements of LGSS Law to the LGSS Joint Committee), however it has been assessed that it is no longer appropriate to incorporate the LGSS Law accounts into the LGSS financial statements as a result of the current partner arrangement. The LGSS and LGSS Law accounts will be produced and reported separately for 2016-17 and subsequent years.

#### 4. 2015-16 ISA260 Recommendations and Progress

- 4.1 As part of KPMG's role in issuing an opinion on the 2015-16 LGSS accounts the auditors produced a report "to those charged with governance" on the Statement of Accounts. This report is referred to as the ISA260 report and the comments, recommendation and progress for each item are summarised below:

Issue	LGSS Financial Systems
Recommendation	As LGSS continues to grow, bringing in Milton Keynes following the year end, it is now time to critically consider the financial systems and processes used by LGSS and implement a structure and/or system and processes that are more appropriate to the nature and size of the organisation. This will help to improve the controls in operation, accuracy of data, efficiency of the closedown process and ultimately reduce costs to the organisation of time required to prepare the accounts.
Original Response	LGSS recognises that its accounting structure has become increasingly complex as it has expanded in recent years. LGSS will review its accounting structure and will explore the feasibility of setting up its own standalone General Ledger, in order to separate out its transactions from those of the councils. The overarching aim of LGSS when producing accounts is to make them as easy to read and understandable to the reader as possible. LGSS is committed to delivering this, and will continue to utilise the interim audit in order to run through proposed methodology with the external auditors and to work towards implementing changes to make the audit process smoother. LGSS will also explore the possibility of other potential changes to systems/processes, such as reviewing the feasibility of setting up its own bank account.
Updated Position	An initial briefing note has been prepared on the subject of LGSS having it's own bank account at the request of the LGSS Joint Overview and Scrutiny Working Group. This briefing note is provided at <b>Appendix 1</b> for information only, Joint Committee members should note that this is an initial exploration of the possibility of LGSS having it's own bank account. As the briefing note identifies there is more work to be done to consider all alternative options due to the complexity and implication on all systems and interfaces, within the context of the ERP Gold solution. Once all options have been explored further update papers will be prepared for discussion.

Issue	Quality of Prepared by Client working papers and responses to audit queries
Recommendation	LGSS should review its closedown process for 2016/17 and carefully consider any stretch targets for completion of working papers. LGSS should review the capacity on the Closedown Team to meet such targets, taking into consideration the Finance Team's workload also.
Original Response	<p>The preparation of the 2015-16 accounts has been the first year that LGSS has utilised an Integrated Closedown Team. This team has prepared the accounts for LGSS, NCC and CCC. Producing these accounts and managing the subsequent audits simultaneously across the organisations has been challenging. LGSS will undertake a full debrief following the conclusion of the 2015-16 audit, looking at lessons learned and continuing to implement improvements for the future. A restructure of the Finance directorate has just been completed. This has included further strengthening of the Closedown function, and due consideration has been given to ensure that the team is appropriately resourced. Consideration will be given to the scheduling of the accounts production process, and of the audit fieldwork, when compiling the 2016-17 Closedown timetable to ensure that adequate resources are available to fulfil the required tasks.</p>
Updated Position	<p>The Finance team have undertaken a full debrief with KPMG following the conclusion of the 2015-16 audit. Several improvements in processes and procedures have been identified as part of the debrief, such as working with colleagues from across the organisation to identify named contacts for the auditors in key areas of the business, such as Payroll, Accounts Payable and Accounts Receivable. This should enable any queries that arise during this year's audit to be answered promptly. The scheduling of the LGSS accounts production, audit and sign off has been considered in the context of the resources available within the Integrated Closedown team and the need to deliver the statutory accounts for the partner authorities. The agreed timetable is set out at paragraph 1.6.</p>

Issue	Compliance with the CIPFA code requirements
Recommendation	LGSS should ensure that it continues to comply with the accounting requirements of the Code and ensure that any changes to the requirements are reflected in future LGSS financial statements.
Original Response	<p>LGSS will continue to use the CIPFA Code of Practice as the basis of preparation for its Statement of Accounts in order to allow comparability with the accounts of the councils, which are prepared on that basis.</p> <p>In preparing its accounts LGSS has sought to balance the requirements of the Code with the desire to make the accounts understandable to the reader. On occasions this has required judgements to be made on the way to present particular items. For example, as LGSS's operations are considered to be trading income/expenditure the Code requires that they be presented as Financing and Investment income/expenditure on the face of the Income and Expenditure Statement. This does not provide the reader of the accounts with a breakdown of these figures by Directorate heading, so this has been shown in an additional table within the accounts.</p> <p>As 2015-16 has been the first year that LGSS Law has been trading it has been the first year that group accounts have been prepared. Upon preparation of the draft accounts judgements were made regarding the disclosures that would be required in respect of the consolidated LGSS Law statements. Following discussion with the auditors during the course of the audit it was agreed that some additional disclosures would be required. These have been included in the final set of accounts. For example disclosures have been added in respect of the defined benefit pension scheme.</p> <p>For the preparation of the 2016-17 accounts Officers will discuss any potential changes in presentation with the auditors at an early stage in the preparation process, in order to minimise changes required during the audit.</p>
Updated Position	The LGSS statement of accounts will be produced based on the accounting requirements outlined within the Code as in previous years. Also as outlined in Sections 2 and 3 of this report aspects of the LGSS accounts have been reviewed and will be changed for 2016-17. These changes are in line with the Code and are being discussed with the auditors.

Issue	Journal entries
Recommendation	<p>LGSS should consider exploring available options to improve its journal controls including how the system can be utilised to support improved:</p> <ul style="list-style-type: none"> <li>• segregation of duties regarding the authorising, posting, reviewing and reconciling of journal entries;</li> <li>• access rights controlling who is authorised to record and approve journal entries along with the posting and authorisation limit; and</li> <li>• oversight of the journal entry-posting process by members of management including post-entry review based on a defined risk based approach.</li> </ul>
Original Response	<p>Journals can only be posted by staff with the appropriate responsibilities and sufficient professional knowledge. These staff are predominantly within the Finance, Pensions and Transactions teams. This functionality is not generally given to staff in the wider organisation. A validation process is undertaken prior to each journal being loaded. This checks that the template has been completed correctly and that the required information has been provided. Whilst there is no explicit approval at the point of entry, there are procedures in place to identify miss-postings retrospectively. Budget managers review the transactions posted against their budget groups as part of the monthly budget monitoring process. Finance Business Partner teams also scrutinise transactions and balances as part of this process. LGSS is currently in the process of implementing the ERP Gold system. Consideration will be given to ensure that an appropriate journal entry process is instigated in the new system.</p>
Updated Position	<p>On behalf of its partner authorities, LGSS is in the process of implementing its new ERP Gold system. Journal procedures will not be changed on the existing system due to the limited time available before the implementation of the ERP Gold system. However due consideration is being given to the journal procedures implemented as part of the ERP Gold build to ensure that they are robust and appropriate.</p>

## 5. Recommendations

- 5.1 There are no specific recommendations arising from this report other than for the Joint Committee to note and comment on the content of the report.