

STATEMENT OF ACCOUNTS 2017-18

To: **Audit and Accounts Committee**

Date: **30th July 2018**

From: **Head of Integrated Financial Services**

Electoral division(s): **All**

Forward Plan ref: **N/a** *Key decision:* **Yes**

Purpose: **This report presents the audited Statement of Accounts for the 2017/18.**

Recommendation: **The Committee is asked to approve the 2017/18 Statement of Accounts.**

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1. BACKGROUND

- 1.1 The Council's Statement of Accounts is produced in accordance with the Code of Practice (CoP) on Local Authority Accounting in the United Kingdom 2017-18 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.
- 1.2 This version of the Statement of Accounts replaces the draft version that was presented to the Committee for review on 12th June 2018 and now requires this Committee's approval.
- 1.3 The auditor has set out the remaining work they need to complete as part of the draft ISA 260 before issuing the certificate of audit completion. This includes:
 - Clearance of outstanding issues on the audit queries tracker currently with management, and completion of the associated audit procedures.
 - Completion of ongoing review of the audit file and clearance of review points
 - Receipt and review of final version of financial statements to confirm all agreed audit adjustments have been made and final approval of the financial statements

Subject to completing this work, we expect all significant revisions to the accounts required as a result of the audit to have been made. A list of known insignificant amendments yet to be made is presented in Appendix 3. These outstanding amendments will be completed prior to the Accounts and Audit Committee meeting, and a verbal update will be provided to the Committee when it meets.

There remains the possibility that material adjustments to the accounts will be required and a verbal update will be provided to the Committee when it meets, and a specific revision requested in the recommendation if necessary to delegate approval of any subsequent adjustments to the Chair and Vice Chair.

2. STATEMENT OF ACCOUNTS

- 2.1 The Statement of Accounts are made up of the following sections:
 - The Narrative Report - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on the Council's performance in 2017-18.
 - Statement of Responsibilities – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statement and the financial management of the Council.
 - The Core Financial Statements – providing a financial snapshot at 31 March 2018 of the Council's position and activity during the preceding year, comprising of:

Comprehensive Income and Expenditure Statement (CIES)

Reports the net cost for the year of all of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

Movement in Reserves Statement (MIRS)

Shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

Balance Sheet

Presents the value of the Council's current and non-current assets and liabilities as at 31 March 2018 with the bottom line effectively being the net worth of the organisation.

Cash Flow Statement

Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.

Expenditure and Funding Analysis (EFA)

Demonstrating to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council's directorates.

- Notes to the Core Financial Statements, which provide further supporting details on aspects of the accounts and which are largely defined by the CoP.
- Accounting Policies – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement of Accounts.
- Local Government Pension Scheme Accounts – details the financial activities relating to the pension fund, together with a snapshot of the assets and liabilities of the fund at 31 March 2018.
- Glossary – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

2.2 There are no significant changes in accounting treatment required by the CoP in 2017-18.

3. AMENDMENTS TO NOTES SINCE THE DRAFT ACCOUNTS

3.1 Appendix 1 details all significant amendments to the draft Statement of Accounts submitted at the Audit & Accounts Committee meeting on 12 June 2018 which have been incorporated into the final Statement of Accounts. Appendix 2 provides a list of disclosure notes that have incorporated changes to figures, beyond those resulting from the Core Statement adjustments shown in the following table, along with a list of disclosure notes that have been removed following assessment as immaterial to the accounts. A summary of the main amendments is provided in the table below. These are as a result of further review work by the finance team and any findings resulting from the external audit.

Ref	Description	Amount £K Debit / (Credit)
1	Correction of Mispasted Short Term Creditor and Short Term Debtor Balances - to correct two mispostings between debtors and current creditors	
	Balance Sheet – Short Term Debtors (increase)	£5,859
	Balance Sheet – Short Term Creditors (increase)	(£5,859)
	Balance Sheet – Short Term Debtors (decrease)	(£8,782)

Ref	Description	Amount £K Debit / (Credit)
	Balance Sheet – Short Term Creditors (decrease)	£8,782
2	Trading Operations - to recognise the outturn of the Grafham Water Centre Trading Operation	
	CIES – Other investment income (decrease)	£117
	CIES – Cost of Services Gross Income (increase)	(£117)
3	Reclassification of Loan from Long Term to Short Term – reclassification of This Land loan as due for repayment by the end of the year	
	Balance Sheet – Short Term Debtors (increase)	£2,800
	Balance Sheet – Long Term Debtors (decrease)	(£2,800)
4	Reclassification from Intangible Assets from Assets under Construction – to recognise an intangible asset not yet operational as an intangible asset	
	Balance Sheet – Intangible Assets (increase)	£3,886
	Balance Sheet – Property, Plant & Equipment – Asset Under Construction (decrease)	(£3,886)
5	Other Comprehensive Income Adjustments – to ensure consistency with Revaluation Reserve Disclosure	
	CIES – Property, Plant & Equipment Revaluation Surplus (decrease)	£859
	CIES – Impairment losses on non-current assets charged to the Revaluation Reserve (increase)	(£859)
6	Pension Adjustments – to ensure consistency with revised information provided by the actuary	
	CIES – Service Area expenditure (decrease)	(£1,579)
	Reserve – Pension Reserve (decrease)	£14,959
	Balance Sheet – Pension Liability (decrease)	£14,959
	MIRS – MIRS (increase)	£1,579
7	Property Revaluation Corrections – to correct revaluation adjustments for eight properties where further information was received after the draft accounts were produced	
	CIES – Service Areas income (increase)	(£1,746)
	CIES – Property, Plant & Equipment Revaluation Surplus (increase)	(£272)
	CIES – Impairment losses on Property, Plant & Equipment (increase)	£6,909
	Balance Sheet – Property, Plant & Equipment (decrease)	(£4,890)
	Balance Sheet – Revaluation Reserve (decrease)	£6,636
	Balance Sheet – Capital Adjustment Account (increase)	(£1,746)
	MIRS – MIRS (increase)	£4,891

3.2 In addition to the adjustments made as set out above there is one other area of the accounts which at the time of writing this report may need adjusting. This is to do with an indexation uplift on assets that have not formed part of the annual revaluation programme. Movements on the assets that have been valued during 2017/18 indicate that there has

been an increase in values during the course of 2017/18, which may need to be applied to those assets that were not included in the revaluation rolling programme in order to ensure the value of assets held in the balance sheet is materially correct. This is still being worked through with BDO and could be in the order of a £22m increase in asset values. If this adjustment is required to the final accounts then the entries are expected to be as follows:

- Balance Sheet – debit (increase) Property, Plant & Equipment asset values by £22m;
- Balance Sheet – credit (increase) the revaluation reserve by £22m;
- CIES – credit (increase) Property, Plant & Equipment Revaluation Surplus by £22m;
- MIRS – debit (decrease) MIRS by £22m.

The Committee will be updated at the meeting as to whether it is necessary to make this adjustment.

3.3 Further still there are four unadjusted audit differences that the Council has agreed with BDO that it will not make (included in the BDO ISA 260 report) as they are not considered material to the accounts, which are:

- Payroll Creditor overstatement (£2,437k)
- Property, Plant and Equipment – overstatement of depreciation charged to the CIES
- Assets Held for Sale overstatement (£610k)
- Services Income and Expenditure, Short Term Debtors and Short Term Creditors – overstated by £599k.

4. LESSONS LEARNT

- 4.1 In light of the challenges experienced in delivering the accounts within the shortened timescales, further improvements have been identified that can be implemented for future years in order to reduce the time required to both produce and audit the accounts. In some areas, this will build upon the improvements that have been introduced in previous years. The main areas identified are summarised in this Section.
- 4.2 **Greater Use of System Functionality in ERP Gold** – the recently implemented ERP Gold system has much improved reporting functionality which will allow the majority of the accounts production process to be produced in very little time. This will allow more officer time to be used to review the information / output and to identify potential errors during the course of the year, and not only as part of the year end process. This continues the strategy to carry out as much Closedown activity during the year as possible, and not at the end of the year when the team and timescales become pressured.
- 4.3 **Greater Accountability** – linked to the above, officers will be able to identify errors/issues earlier and therefore will be able to share this information in order to effect a resolution in good time. This contrasts with errors/issues that are identified after year end, where it can be difficult to get responses in the timescale required when the accounts are being produced at pace with constant deadlines. Such delays cannot be absorbed within the shortened timeframe.
- 4.4 **Review of Effectiveness of Valuation Rolling Program** – one of the main issues experienced during the audit was the need to make an adjustment due to the increase in

value of the assets since they were last valued. This has raised the question about whether a rolling program of valuations (as recommended by CIPFA), which ensures that every asset is valued at least once every 5 years, is fit for purpose. This will be reviewed with the property team and the external valuers to ensure that the process for ensuring the balance sheet values are materially accurate. This will include consideration as to the best timing for property valuations to be undertaken with a view to removing the risk of indexation uplifts to the asset values.

- 4.5 **Review of Resources** – the Closedown team has worked very well with the Finance Business Partner team to deliver the accounts and audit for 2017/18. However the Closedown team is relatively small and has the responsibility for coordinating the audit queries from the auditors. With there being in the order of 67 audit queries at the interim audit and 110 queries at the time of writing on the final audit, this is a resource intensive task, which adds further pressure to the technical staff having to respond to the queries raised. Consideration will be given as to whether a ‘Project Manager’ type role can be resource in future in order to provide the coordination of audit queries to free up the Closedown Accountants.
- 4.5 It is expected that further actions will be identified as part of a more formal lesson learnt process, as well as the ISA260 recommendations outlined by BDO. We will keep the Audit Committee informed as to the progress being made against the issues outlined.

5. ALIGNMENT WITH CORPORATE PRIORITIES

5.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

5.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

5.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

6. SIGNIFICANT IMPLICATIONS

6.1 Resource Implications

There are no significant implications within this category.

6.2 Statutory, Risk and Legal Implications

These are set out within sector 3 of this report.

6.7 Equality and Diversity Implications

There are no significant implications within this category.

6.8 Engagement and Consultation Implications

There are no significant implications within this category.

6.9 Localism and Local Member Involvement

There are no significant implications within this category.

6.10 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Code of Practice 2017-18 (based on IFRS)	Octagon first floor, Shire Hall, Cambridge
Statement of Accounts 2017-18	
Statement of Accounts working papers.	
Outturn Integrated Resources & Performance Report for 2017-18	

Appendix 1: Summary of changes from draft to final accounts

Section	Detail
Narrative Report	Updated to incorporate: <ul style="list-style-type: none"> • Clarifications requested at the last audit committee • Changes identified during the audit period by External Audit • Changes within the core statements and associated notes to the accounts due to audit adjustments outlined in Section 3 above
Comprehensive Income & Expenditure Statement (CIES)	Figures have been updated to incorporate the audit adjustments described in Section 3 of this report.
Movement in Reserves Statement (MIRS)	Figures have been updated to incorporate the audit adjustments described in Section 3 of this report.
Balance Sheet	Figures have been updated to incorporate the audit adjustments described in Section 3 of this report.
Cash Flow Statement	Figures have been updated to incorporate the audit adjustments described in Section 3 of this report and presentational changes made following external audit.
Notes To The Core Financial Statements	Figures have been updated to incorporate the audit adjustments described in Section 3 of this report and some presentational changes made following external audit.
Pension Fund accounts	Updated data and presentational changes made following external audit.

Appendix 2: Disclosure note changes

Disclosure notes with adjustments to figures (beyond the impact of the Core Statement adjustments given at para. 3.1 above)

- Note 1 – Expenditure and Funding Analysis;
- Note 5 – Prior Period Adjustment;
- Note 10 – Adjustments between Accounting Basis and Funding Basis under Regulations;
- Note 15 – Property, Plant and Equipment;
- Note 16 – Heritage Assets;
- Note 28 – Officer’s Remuneration;
- Note 31 – Dedicated Schools Grant;
- Note 32 – Grant Income;
- Note 35 – Leases;
- Note 40 – Nature and Extent of Risks Arising from Financial Instruments.

Disclosure notes removed (assessed as immaterial to the accounts)

- Investment Properties;
- Provisions;
- Assets Held for Sale;
- Unusable Reserves – Accumulated Absences Account;
- Trading Operations (additional wording included in Narrative Report)
- Leases – Lessee Operating Leases;
- Nature and Extent of Risks Arising from Financial Instruments – Price Risk and Foreign Exchange Risk.

Appendix 3: Amendments yet to be made

- Group Cash Flow Statement – needs to be updated for those adjustments listed in para. 3.1;
- Addition of Group disclosure notes – Long Term Debtors and Cash and Cash Equivalents;
- Addition of a reconciliation between net expenditure chargeable to the General Fund in the Statement of Accounts and the outturn figure included in the narrative report (£3.7m difference – technical accounting adjustments);
- Improved wording of part of the Financial Instruments disclosure note to aid understanding;
- Additional Related Party disclosure relating to the Executive Director for People and Communities;
- Adjustment to 2016/17 comparative figures in the Expenditure and Funding Analysis note and the Note to the Expenditure and Funding Analysis to reflect service reorganisations during 2017/18;
- Removal of rounding differences;
- Update of page numbers and references to disclosure note numbers (including index pages).