

CLOSEDOWN PROGRESS REPORT

To: **Audit and Accounts Committee**

Date: **21st March 2017**

From: **Group Accountant**

Electoral division(s): **All**

Forward Plan ref: **N/a** *Key decision:* **No**

Purpose: **This report is to provide the Committee with an update on progress on Closedown and the production of the accounts.
The report also includes an update on the implications of the forthcoming changes to the statutory deadlines for the production of the accounts in 2017-18 onwards.**

Recommendation: **The Committee is asked to note the report.**

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1. INTRODUCTION

- 1.1 This report is to provide the Committee with an update on the production of the 2016-17 Statement of Accounts, the interim audit, and an update on the process for the appointment of the next external auditor. Details of the changes required by the 2016-17 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice are also included.
- 1.2 Section 6 of the report sets out the implications of the forthcoming changes to the statutory deadlines for the production of the accounts which will take effect from the production of the 2017-18 accounts onwards.

2. PLANNING FOR THE 2016-17 YEAR END CLOSEDOWN

- 2.1 The Authority utilises a year end timetable to co-ordinate its closedown process. This consists of a detailed list of tasks, which are assigned to different teams, each having deadlines assigned. The 2016-17 timetable has been prepared and is being circulated to all appropriate staff. A separate timetable is prepared specifically for budget managers focussing on the tasks that they are required to undertake at year end. A guidance document has also been circulated to budget managers.
- 2.2 The timetable has been reviewed and, where possible, tasks have been brought forward or deadlines shortened. This is in readiness for the changes to the statutory deadlines which will be introduced for the preparation of the 2017-18 accounts. The deadline for publication of the draft accounts will be 31st May (rather than the current 30th June) with the final audited accounts to be published by 31st July (rather than the current 30th September). These changes are required by the Audit and Accounts Regulations 2015. (See section 6 for further details of the changes to deadlines). Although there is 12 months until this deadline take effect, the Authority has restructured its timetable with the intention of having this year's draft accounts ready for the end of May. Progress will be carefully monitored throughout the process and any lessons learned will be incorporated into next year's timetable.

3. INTERIM AUDIT 2016-17

- 3.1 As in previous years, the external auditors will be undertaking an interim audit of the Authority's financial statements. This will take place over a period of three weeks, and commenced on 27th February.
- 3.2 BDO have provided the Authority with a list of working papers and documents that they wish to inspect during the interim audit. Areas to be reviewed during the interim audit include systems walkthroughs of areas such as payroll, accounts payable and accounts receivable; substantive testing of Capital and fixed assets, and income and expenditure testing. A verbal update on the progress on the interim audit will be provided to the Committee at the meeting on 21st March.

4. CHANGES TO THE CIPFA CODE OF PRACTICE FOR 2016-17

- 4.1 It has been expected that the 2016-17 Code would include a change to the valuation of Highways Network Assets (HNA). HNA includes roads,

footpaths, cycleways, bridges, and street furniture owned and maintained by the Authority. The valuation of these assets has been due to change from a historical cost valuation to a depreciated replacement cost valuation. This change is to bring this section of the Code in line with International Financial Reporting Standards (IFRS). This change will significantly increase the value of these assets on the Authority's balance sheet, but will have no impact on day to day expenditure. CIPFA announced in November 2016 that the adoption of this change within the Code was being postponed by a year. So HNA in the 2016-17 accounts will continue to be valued on a historical cost basis.

- 4.2 The most significant change which is being introduced in the 2016-17 Code of Practice is to the presentation of the Comprehensive Income and Expenditure Statement (CIES). The CIES shows revenue expenditure and income for the year, in line with proper accounting practice. Previous editions of the Code had required the Net of Cost of Services within the CIES to be broken down in to specific service headings. (Referred to as SeRCOP headings). 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 Authority's monthly financial reporting (IRPR reports) and the statutory accounts was difficult to follow, because the IRPR report is set out with the Authority's internal Directorate structure and the accounts are set out based on SeRCOP headings. The change to the Code for 2016-17 allows the Authority 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 IRPR reports and the accounts position will be clearer for the reader of the accounts to follow. Please see Appendix 1 for an example of how this change will look in the accounts.
- 4.3 Another change in the 2016-17 Code is the introduction of a new disclosure in the accounts called the Expenditure and Funding Analysis (EFA) (also shown in Appendix 1). This partly replaces the segmental analysis shown in previous accounts. This statement and the accompanying disclosure notes are intended to provide a reconciliation between the budget monitoring outturn position shown in the IRPR reports and the accounting position shown in the CIES.
- 4.4 The other changes in the Code are largely presentational in nature. These will be highlighted to the Committee when the draft accounts are presented at the 25th July Committee meeting.

5. UPDATE ON THE APPOINTMENT OF THE NEXT EXTERNAL AUDITOR

- 5.1 An update was provided to the Audit and Accounts Committee at the meeting on 22nd November 2016 on the process for appointing the next external auditor. The current arrangement ends upon the conclusion of the audit of the 2017-18 financial statements.
- 5.2 The option discussed with the Committee in November was for the Authority to opt in to the sector-led procurement exercise being undertaken by Public Sector Audit Appointments Limited (PSAA), the body which has replaced the Audit Commission.

- 5.3 The Local Audit (Appointing Person) Regulations 2015 require that the decision to opt in to this process is taken at the meeting of full Council. The deadline for opting in is 9th March 2017.
- 5.4 A decision was taken at the meeting of full Council on 14th February 2017 to opt in the PSAA-led process. The formal opt in has now been submitted to and acknowledged by the PSAA.
- 5.5 Since the Audit Committee meeting in November officers have written to the PSAA for assurance that all LGSS authorities could be assigned the same external auditor through the PSAA led process. The PSAA have responded to confirm that this can be accommodated, subject to due considerations of auditor independence.

6. IMPLICATIONS OF FORTHCOMING CHANGES TO STATUTORY DEADLINES

- 6.1 As set out in the report presented to the Audit and Accounts Committee on 20th September 2016 the Accounts and Audit Regulations 2015 have enacted some changes to the statutory deadlines for the production and publication of the Statement of Accounts.
- 6.2 The previous deadlines were for the draft accounts to be published by 30th June, with the final audited accounts to be published by 30th September. The new deadlines are for the draft accounts to be published by 31st May and the final audited accounts to be published by 31st July. The Regulations include a transitional period, so these changes apply from the production of 2017-18 accounts onwards. Therefore the accounts produced this year will be the final set with the old deadlines.
- 6.3 The changes to the deadlines will have a number of implications on the production of the accounts. With less time available some tasks will need to be brought forward, so the preparation of the accounts will need to start further in advance of year end. The reduced timescales will also necessitate some changes to the accounts production process. These are highlighted below.
- 6.4 **Revised Closedown timetable.** The Authority operates a year end timetable for the production of the accounts. This comprises several hundred tasks which are assigned to particular individuals and teams to enable the accounts to be produced. This timetable will need to be overhauled and revised to take account of the reduced timescales. Some items which are usually undertaken after year end may need to be undertaken prior to year end in future. This may necessitate an increased use of estimates. (See paragraph 6.7).
- 6.5 **Scheduling of Committee meetings.** Audit and Accounts Committee meetings from April 2018 onwards will need to be scheduled to take account of the revised deadlines for the sign off of the Statement of Accounts. This means that there will need to be a meeting at the end of May (or early in June) for the Committee to review the draft accounts. There will need to be a meeting scheduled prior to the end of July for review and sign-off of the final accounts, following the conclusion of the external audit.

- 6.6 **Reliance on information/reports from external bodies.** During the accounts production process the Authority needs to gather information and reports from external bodies. For example valuation reports on fixed assets, and the actuary's report on the pension position. These reports will need to be available at an earlier point in the year to enable the corresponding accounting entries to be processed. The Authority will need to liaise with these external bodies to ensure that these reports can be provided at an earlier point in the year.
- 6.7 **Use of estimates.** With less time available between the end of the financial year and the point at which the draft accounts need to be published it will be necessary to begin the production of the accounts ahead of year end. This will mean that some items will need to be estimated, as there will not be time available to wait for final actuals to be confirmed. The Authority will need to make appropriate judgements over any estimates used, and the judgements taken will need to be disclosed within the accounts. Prior to the production of the 2017-18 accounts the Authority will need to review its processes to identify any areas where estimates will need to be used. Any use of estimates would be limited to particular items within the accounts and would not have a material effect on the document. For example, some internal recharges may need to be done based upon figures to period 11 with the final month estimated, rather than waiting for the final period 12 position.
- 6.8 **Raising awareness of the new deadlines.** All Finance staff have already been made aware of the forthcoming changes to the statutory deadlines for the production of the accounts. Staff in key roles which link into the production of the accounts have also been informed. Over the coming year awareness in the rest of the organisation needs to be increased. For example budget managers will need to be informed that they will have a reduced amount of time available at year end to make adjustments. Regular communications are already circulated to budget managers, and the changes to deadlines will be included in these communications over the coming year. Messages will also be circulated to staff via Cambweb, the Authority's intranet pages.

7. ALIGNMENT WITH CORPORATE PRIORITIES

7.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

7.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

7.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

8. SIGNIFICANT IMPLICATIONS

8.1 Resource Implications

There are no significant implications within this category.

8.2 Statutory, Risk and Legal Implications

There are no significant implications within this category.

8.3 Equality and Diversity Implications

There are no significant implications within this category.

8.4 Engagement and Consultation Implications

There are no significant implications within this category.

8.5 Localism and Local Member Involvement

There are no significant implications within this category.

8.6 Public Health Implications

There are no significant implications within this category.

There are no background papers

Appendix 1 – CIPFA Code changes 2016-17

- **Previous presentation of the Comprehensive Income & Expenditure Statement (CIES):**

		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Central Services to the Public	} Note 1	x	(x)	xx
Culture and Related Services		x	(x)	xx
Environment and Regulatory Services		x	(x)	xx
Planning Services		x	(x)	xx
Childrens and Education Services		x	(x)	xx
Highways and Transport Services		x	(x)	xx
Adult Social Care		x	(x)	xx
Public Health and Wellbeing		x	(x)	xx
Corporate and Democratic Core		x	(x)	xx
Non Distributed Costs		x	(x)	xx
Cost Of Services		x	(x)	x
Other Operating Expenditure		x	(x)	xx
Financing and Investment Income and Expenditure		x	(x)	xx
Taxation and Non-Specific Grant Income		x	(x)	xx
(Surplus) or Deficit on Provision of Services		x	(x)	x
(Surplus) or Deficit on Revaluation of Non Current Assets				xx
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				xx
Actuarial (gains) / losses on pension assets / liabilities				xx
Other gains and losses				xx
Other Comprehensive Income and Expenditure				xxx
Total Comprehensive Income and Expenditure				xxx

Note 1: The service headings within this section of the CIES were prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP). CIPFA also prescribed what was to be included within each service heading.

This enabled comparability between accounts prepared by different authorities, but meant it was difficult to compare the statutory accounts in the Authority's monthly financial monitoring as this is prepared on a Directorate basis.

- **Presentation of the Comprehensive Income & Expenditure Statement (CIES) under the 2016-17 Code:**

	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
Economy, Transport and Environment	x	(x)	xx
Children, Families and Adults	x	(x)	xx
Public Health	x	(x)	xx
Corporate Services	x	(x)	xx
LGSS Managed	x	(x)	xx
Assets & Investments	x	(x)	xx
LGSS Operational	x	(x)	xx
Cost Of Services	x	(x)	x
Other Operating Expenditure	x	(x)	xx
Financing and Investment Income	x	(x)	xx
Taxation and Non Specific Grants	x	(x)	xx
(Surplus) or Deficit on Provision of Services	x	(x)	x
(Surplus) or Deficit on Revaluation of Non Current Assets			xx
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets			xx
Actuarial (gains) / losses on pension assets / liabilities			xx
Other gains and losses			xx
Other Comprehensive Income and Expenditure			xxx
Total Comprehensive Income and Expenditure			xxx

Note 2

Note 2: The 2016-17 Code removes the requirement to use the SeRCOP headings. The Cost of Services can now be split based upon the Authority's internal reporting lines. This it can be shown using Directorate headings. This should allow an easy read-across between the Authority's Integrated Resources Performance Reports and the accounts.

Note 3: The prior year CIES figures for 2015-16 will need to be restated into this new format. This is purely a presentational change. The bottom line figure is the same under each presentation method.

- **Expenditure and Funding Analysis – new disclosure for 2016-17**

	Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Economy, Transport and Environment	x	x	x
Children, Families and Adults	x	x	x
Public Health	x	x	x
Corporate Services	x	x	x
LGSS Managed	x	x	x
Assets & Investments	x	x	x
LGSS Operational	x	x	x
Net Cost Of Services	x	x	x
Other Income and Expenditure	x	x	x
Surplus or Deficit	x	x	x
Opening General Fund Balance	x		
Less/Plus surplus or deficit on General Fund in Year	x		
Other gains and losses	x		
Closing General Fund Balance	x		

Service segments

This is a new disclosure which will be included in the 2016-17 accounts, along with some supporting disclosures. It is intended to show how the Authority's annual expenditure and funding is split across each service segment (in the left hand column), and how this compares with the resources consumed/expanded by the Authority in accordance with generally accepted accounting practice (the right hand column).