LGSS Statement of Accounts Update

To: LGSS Joint Committee

Date: 30 August 2018

From: LGSS Finance

Purpose: To present to the Joint Committee the 2017-18 LGSS Annual Report including the Statement of Accounts for comment

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

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1. Background

1.1 LGSS produces an Annual Report which includes its own annual Statement of Accounts. These accounts are prepared alongside the statutory accounts of each partner authority, although the timings differ because LGSS is not a statutory audit and he May and July deadlines that the statutory accounts of the Partners have to adhere to do not apply.

1.2 The LGSS accounts encompass LGSS income and expenditure from each of the host authorities under the Joint Committee arrangement i.e. LGSS does not have its own financial ledger or bank account. Whilst the single entity accounts of the three local authorities include the LGSS spend attributable to each authority, the LGSS Statement of Accounts show the combined position across all of the LGSS operational budgets (in other words excluding the managed budgets that LGSS manages on behalf of the host authorities). The LGSS accounts therefore provide a single consolidated financial reporting position for LGSS.

1.3 In practice, transaction level detail for each shareholding authority is used to produce the core financial statements included within the LGSS accounts. There is a clear trail from the partner authorities' general ledger to the final LGSS accounts that are produced.

1.4 From 1 April 2015, the implementation of the Local Audit and Accountability Act 2014 has meant that joint committees (such as LGSS) 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 and this is due to commence on 10 September 2018.

1.6 It is expected that the final audited accounts will be presented to the Joint Committee for approval at the 1 November Joint Committee meeting.

2. Key Changes from Last Year

2.1 There are no significant regulatory changes to the 2017-18 LGSS accounts compared to 2016-17.

3. Overview of the Annual Report and Statement of Accounts

3.1 The LGSS Annual Report is comprised of:

- An introductory section presenting the background to LGSS and an overview of initiatives and performance for the year;

- The Narrative Statement providing an overview of the Statement of Accounts section of the Annual Report;

- The core financial statements being: the Comprehensive Income and Expenditure Statement; the Balance Sheet; the Movement in Reserves Statement; and the Cashflow Statement. Members of the Joint Committee should note that the accounts and core statements are prepared in accordance with accounting standards (the CIPFA Code of Practice on Local Authority Accounting 2017-18), and so differ in presentation from the management accounts presented to the Joint Committee during the year;

- The notes to the accounts providing additional supporting information to numbers in core statements; and

- The Annual Governance Statement to ensure that LGSS activities are conducted within the scope of the law, safeguard pubic money and ensure that income and exependiture are accounted for properly and resources are used economically, efficiently and effectively.

3.2 Key numbers to note from the core statements are that:

- LGSS incurred a deficit for the 2017-18 year of £668K consisting of an operational deficit of £228K for the year funded by the Partner Authorities, and the net draw down from reserves for planned service investments. This is shown in the Comprehensive Income and Expenditure Statement of the Accounts (page 19 of the Annual Report document);

- LGSS continues to hold reserves of £727K for planned service reinvestment as per the Balance Sheet and the Movement in Reserves Statement of the Accounts (pages 20 and 21 of the Annual Report document respectively); and

- Cash and cash equivalents as at 31 March 2018 decreased by £3,062K as per the Cash Flow Statement of the Accounts (page 22 of the Annual Report document). Committee members should note that the cash figure in the LGSS accounts is a notional figure derived from the other core statements because LGSS does not have its own bank account.

4. LGSS Value for Money

4.1 A Value for Money assessment for LGSS as part of the Annual Report and Statement of Accounts for 2017-18 had been considered but this approach has been superseded and alternative arrangements will be put in place to undertake a best value assessment.

5. ISA260 recommendations and progress

5.1 As part of KPMG's role in issuing an opinion on the 2016-17 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 in Appendix 1. There are two recommendations that are ongoing and work is still in progress as follows:

- Development of a single ledger / host authority financial model for LGSS (refer to Appendix 1 Items 2 and 4); and

- A formal policy around recharges for LGSS (refer to Appendix 1 Item 3).

6. Audit Timetable

6.1 The LGSS accounts are being produced to the timetable below (subject to confirmation from KPMG). The timetable has been reviewed, with timescales brought forward if possible.

Draft accounts published to Joint Committee	**22 Aug 18**
Audit of the accounts to start	**10 Sep 18**
Joint Committee approval of accounts and consideration of the Auditor's Report	**01 Nov 18**

7. Recommendation

7.1 The Joint Committee are asked to note and comment on the report and the Annual Report and Statement of Accounts at Appendix 2.

Appendix 1 Update on 2016-17 ISA 260 Audit Recommendations

Item	1) 2017-18 Oracle financial reporting
Recommendation	The 2017-18 financial reporting will continue to use the Oracle financial system. Therefore management need to complete a root and branch review of its process for creating the LGSS accounts. This should involve engagement of stakeholders and finance business partners who form part of the financial reporting process to identify methods of simplifying the accounts production and audit process. In addition management should assess the Closedown team resource and resilience in creating the Statement of Accounts, including review of the process. This should supplement the audit readiness and timing recommendation detailed in recommendation 4. Although the new financial system is due to be implemented there is a risk that failing to implement this improvements to the process will result in continued high levels of Closedown Team time to create the LGSS Statements of Accounts and a higher external audit fee due to the complexity of the accounts production process. In order to aid this process management should implement recommendation 2 and recommendation 3 presented below.
Update	With three LGSS Partners the complexity of the financial reporting has increased alongside the volume of data required to produce the accounts. At the end of each audit officers undertake a debrief with the auditors to identify lessons learnt and where improvements can be made. This is a continuous process and officer's have identified and implemented improvements in the way that information is identified by each Partner by providing greater clarity of the requirements enabling information to be provided to the Closedown team more quickly to produce the accounts. In terms of the audit process officers have liaised with the auditors to change the approach by introducing an Interim audit for LGSS for the 2017-18 accounts process. This has meant that a good proportion of the sampling and testing and any work not dependent on the final year end figures has been progressed already. The intention being that this will make the audit process for the final accounts much smoother. The approach has also used the Finance Business Partner team for LGSS more extensively to ensure queries and information is provided to the auditors more promptly. This approach will be replicated for the final audit. In terms of resourcing, given the challenging financial circumstances additional capacity has not been added to the team. However as the Integrated Closedown team matures, staff are being used more flexibly to deliver all sets of accounts that are supported. The timing for the production of the draft accounts and when to undertake the audit has also been discussed and agreed with KPMG having due regard to the team's capacity and the statutory accounts of the Partner authorities.

Item	2) 2018-19 Agresso financial reporting
Recommendation	As part the Agresso implementation LGSS should fundamentally review the current financial reporting set up. This should include discontinuing the use of three ledgers with LGSS cost centres and replacing it with a standalone LGSS ledger in order to create autonomy of LGSS and the transactions from the Host Authority. This will allow a distinction between LGSS transactions and those of the Host Authorities.
Update	Improvements from the introduction of ERP Gold will be seen from 2018-19 even though a standalone ledger is not yet in place. ERP Gold has been developed with a single hierarchy, which can be used to report on LGSS as a total from the three separate client ledgers. This is possible through much better reporting functionality in ERP Gold to extract the required information across the three Partners in a consistent way. In addition work is in progress to explore the potential for LGSS to operate from its own financial ledger using a host authority model. Project Initiation Documents have been prepared in respect of this for discussion with the Chief Finance Officers of the Partner Councils.
Item	**3) 2017-18 Oracle financial reporting**
Recommendation	Management should implement a recharges approval process for LGSS. Where transactions are recharged to LGSS they should be supported by appropriate evidence and approval from both budget managers prior to posting. Recharges posted in order to reallocate costs should be reviewed by management and removed from the LGSS costs centres. This will result in a smaller number of transactions within the LGSS cost centres which will speed up the accounts production and audit process.
Update	The recharges approval process remains work in progress. However an analysis of the recharges has been factored into the year end processes to eliminate recharges for the compilation of the Accounts which will also make the audit processes and sampling more efficient.
Item	**4) 2018-19 Agresso financial reporting**
Recommendation	As part of the implementation of Agresso and set up of LGSS within its own ledger, see recommendation 1, management should implement a new process where all income is invoiced by LGSS and all costs are invoiced to LGSS regardless of whether a host Authority is involved in the transaction, this will remove the need to undertake recharging and provide a robust audit trail of evidence. This will ensure that only transactions relating to LGSS are recognised and they are supported by appropriate accounts receivable and accounts payable processes.
Update	Refer to item 2 above, however Officers will need to discuss the suggested approach of invoicing all income regardless of their being a host Authority in place with the external auditors. There is concern around the impact of gross income and gross expenditure in the accounts of the Partner Authorities with this recommendation.

Item	**5) Cost Centre Review**
Recommendation	Management should remove the "Goods receipt/invoices receipt tidy up" cost centres from the LGSS accounts to reduce the risk of error of misstatement. All cost centres should be reviewed for appropriateness.
Update	This has been completed as part of the accounts production process. A review of the cost centres was undertaken as recommended to ensure that only those relevant to LGSS are included in the reports required to prepare the accounts.
Item	**6) Accounts Production and Audit Process**
Recommendation	LGSS produce non-statutory Statement of Accounts and therefore do not have an accounts production and audit deadline as required for Local Authority audits. Management should review the timings of the accounts production and audit process for LGSS and set out an appropriate timeline for the process. This should incorporate the following key factors: — Conclusion and sign off of the Host Authority audits; — Closedown team holiday and availability; — Closedown team support in Milton Keynes to support with queries on items within the Milton Keynes ledger; and — Appropriate time to produce supporting working papers that reconciled to the LGSS Statement of Accounts.
Update	As per the update to item 1 the Integrated Closedown Team has worked on closing the Partner authority accounts by the earlier deadlines. The timing of the LGSS accounts has been kept under review as a non-statutory audit and discussed with KPMG, where necessary flexing the timings so that all parties are in agreement of the ultimate timescales for the accounts. The deadlines being worked to are set out in Section 6 of the main report above.
Item	**7) Approach to Restructuring**
Recommendation	Where future restructuring takes place management should ensure that any programme is costed and proposed to the Joint Committee for approval. This will ensure that significant expenditure is appropriately challenged by those charged with governance in order to ensure it is appropriate and delivers value for money.
Update	As per the LGSS Scheme of Delegation, the "LGSS Directors have responsibility for the operational management of the Shared Services, including authority to determine the number, grade, title and nature of staff deployed and all other terms and conditions, in addition to ensuring their proper management within the remit of those services for which they are allocated responsibility by the LGSS Managing Director". Any changes to the operational model for LGSS are reported and approved through the Joint Committee following which restructuring of various services has taken place in line with the LGSS Scheme of

	Delegation. This will continue to be the approach undertaken with any future revisions to the LGSS operating model.
Item	**8) LGSS Law Dividends**
Recommendation	LGSS intend to recognise income from LGSS Law dividends going forwards. In order to do this the following will need to be in place: – Declaration by LGSS Law Directors prior to or within appropriate period of the year end to recognise the dividend within the financial year; and – Mechanism where the dividend can be paid over to LGSS by Northamptonshire and Cambridgeshire County Councils as the shareholders of LGSS Law, as LGSS is not entitled to recognise the dividend as income.
Update	This recommendation is now considered obsolete due to the fact that any dividend from LGSS Law Ltd is paid to the shareholding authorities (Cambridgeshire CC, Northamptonshire CC and Central Bedfordshire Council). Therefore LGSS itself does not have any entitlement to dividend from LGSS Law Ltd and any discussions with the host authorities would be in the context of additional income to be made available to LGSS rather than being linked to any dividend payment.
Item	**9) Integration of additional authorities**
Recommendation	If additional authorities are integrated into LGSS management should ensure a clear process for performing a cut off between LGSS Balance Sheet items and Host Authority Balance Sheet items. This will ensure that Authority transactions are not included within the LGSS Statement of Accounts.
Update	A specification of requirements from each Partner that is needed to prepare the accounts has been produced which will be used as part of any future integration of Partners that join LGSS. In addition discussions will be held early with any authorities joining to ensure these requirements and their timings are understood.
Item	**10) Journal Arrangements**
Recommendation	There has been no change to the authorisation arrangements. However, we anticipate this will be implemented upon migration to Agresso later in 2017/18.
Update	The new ERP Gold system has introduced some enhanced journal authorisation processes. Finance professionals are able to post directly to the ledger as required given they are trained professionals. However non-finance staff journals have to be approved by the budget manager and where there are journals required across budget areas then the Finance Business Partner teams must approve these through workflow processes in the system. As the ERP system was recently implemented these arrangements will be kept under review and adjusted where necessary.