

Joint Audit and Governance Committee



Report of Head of Finance

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To: Joint Audit and Governance Committee

DATE: 21 March 2016

Statement of accounts 2015/16

Recommendations

- (a) To note progress on completing the 2015/16 statement of accounts
- (b) To approve the revised statements of accounting policies as shown in Appendix 1 (South Oxfordshire DC) and Appendix 2 (Vale of White Horse DC).

Purpose of Report

1. To update councillors on progress being made towards the completion of the 2015/16 statement of accounts, and to present revised statements of accounting policies for approval.

Strategic Objectives

2. The council has a strategic objective of effective management of resources. The timely production, audit and publication of the statement of accounts is fundamental to this objective.

Background

3. As councillors will be aware, the statement of accounts for both councils for 2015/16 are required to be completed and signed off for audit by the head of finance by 30 June, and audited accounts are to be approved by this committee for publication by 30 September. This report brings to the attention of the committee some of the key issues for this year's closedown.

Changes to the accounts for 2015/16

4. There are two key changes to the financial statements for 2015/16. These are:
 - The adoption of IFRS 13 Fair Value Measurement into the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"), and
 - The replacement of the explanatory foreword to the accounts by a narrative statement, as required by the Accounts and Audit Regulations 2015.

IFRS 13 Fair Value Measurement

5. IFRS 13, which requires assets to be valued at fair value, has been adopted into the Code for 2015/16 accounts. The practical application of this however will have a limited impact as follows:
 - Operational property, plant and equipment, whilst now valued at current rather than fair value, will see no change to the way they are valued i.e. existing use value for assets where an active market exists, and depreciated replacement cost for assets where there is no market and/or the asset is specialised,
 - Surplus property, plant and equipment, and investment property, now however have to be valued at fair value, which represents highest and best use and is a measure of financial capacity.
6. For land and buildings valuations, the council's valuers have been instructed to value the affected properties based on the new requirements. Fair value measurement also applies to the council's financial instruments but this will have no impact on the values shown for these assets and liabilities in the final accounts as the valuation basis is unchanged.
7. Adoption of IFRS 13 into the Code requires changes to the councils' statements of accounting policies. These, and other changes (excluding minor typographical changes), are shown in "tracked changes" in the draft statements of accounting policies shown as Appendix 1 (South Oxfordshire) and Appendix 2 (Vale of White Horse) to this report.
8. It is considered best practice for audit committees to consider and approve changes to statements of accounting policies in advance of the closedown process. The committee are therefore asked to approve the revised statements of accounting policies shown in the appendices.

Narrative statements

9. The councils' statements of accounts have to date always included an explanatory foreword, intended to be a plain English guide to the accounts and therefore focussed on the financial performance contained therein. However, the Accounts and Audit Regulations 2015 do away with the explanatory foreword and replace it with a narrative statement, which is based on practice followed by government departments.
10. To comply with the requirements for a narrative statement, far more commentary on the non-financial performance of the councils will be required than included previously in the explanatory foreword. To facilitate this, colleagues from the councils' Corporate Strategy service have been engaged to prepare the necessary commentary for final accounts.

Challenges to the accounts process

11. Undertaking final accounts poses challenges to the accountancy team. This year committee is asked to note the following issues:
 - Work the accountancy team is undertaking to facilitate the faster closedown agenda, and
 - Issues already identified in preparing for final accounts.

Faster closedown

12. As reported to this committee in September, the final accounts deadlines are being brought forward, so that the 2017/18 statement of accounts is required to be signed off for audit by the head of finance by 31 May 2018, with committee approval for publication required by 31 July 2018. Although this change is still two years away we, in common with many authorities, are taking the opportunity to make preparations for this by bringing forward our deadlines as a trial run. For practical purposes, given the Whitsun bank holiday and school half term, we have set a target deadline of Friday 27 May 2016 for completion of the 2015/16 accounts.
13. To help speed up faster closedown we have undertaken the following activities:
 - Implemented changes to the key deadlines in the closedown timetable, particularly around revenue and capital closedown,
 - Produced a faster closedown action plan for accountancy, highlighting which final accounts activities could be done sooner, against which performance is monitored in team meetings,
 - Kept heads of service informed of our plans through updates at Corporate Management Team and Operational Management Group meetings,
 - Circulated final accounts guidance and forms to council staff on 1 March, earlier than in previous years,

- Following consultation with heads of service, introduced a service based approach to final accounts training whereby service accountants are meeting with departmental staff to guide them on what is required for final accounts.
14. It should be noted that whilst this is encouraging progress, there are a number of potential obstacles to achieving this deadline. These are listed below:
- Lack of receipt of timely information from third parties, both internally and externally,
 - Impact of Corporate Services Project on accountancy,
 - Impact of Police and Crime Commissioner for Thames Valley elections work on accountancy,
 - Unforeseen additional workload for accountancy.
15. Third parties, both internal and external, have been made aware of our deadlines for completing year end work. However, merely making these parties aware of these deadlines does not guarantee that they will comply. In particular, completion of materially correct accounts relies on timely provision of information from the following external providers:
- Pensions liability information from the actuaries,
 - Property valuations from the councils' valuers,
 - Council tax and business rates information from the councils' financial services provider.
16. The accountancy service is in scope for the Corporate Services Project and as such provision of the service is scheduled to transfer to the new provider on 1 August 2016. The impact of this transfer on the accountancy team during final accounts cannot be measured. To date, two experienced members of the team have left owing to the uncertainty surrounding the outsourcing project, and there is no guarantee that others will not follow suit. In addition, it is not clear at this stage what impact the transition process will have on the accountancy team's workload.
17. The election of the new Police and Crime Commissioner for Thames Valley takes place during the final accounts process. Whilst the scale of this election does not compare to the elections in May 2015 accountancy resource will still be required to support these elections, though at this stage it is not anticipated that this will cause significant disruption.
18. Any significant or urgent project work that accountancy is required to undertake during the final accounts period could also undermine the team's ability to meet the revised deadline. The impact of any additional work will be reviewed and managed by the chief accountant in consultation with the head of finance.

Issues already identified

19. As part of undertaking preparatory work for final accounts the following issues have already been identified that the committee needs to note:

- Opening ledger balances at South Oxfordshire, and
- Duplicate payments on Agresso.

20. At the time of writing, the opening balances on the general ledger for the 2015/16 financial year for South Oxfordshire are incorrect. This has been a long-standing system problem that our contractor, Capita, has as yet been unable to fix. The absence of correct opening balance information not only hinders the work of accountancy in preparing for year end, but it also impacted on some of the final accounts interim audit work that the external auditors were undertaking. Without resolution of this issue we will not be able to finalise the accounts, or have them audited.

21. The recent creditor payments audit covered elsewhere on this agenda identified a number of duplicate payments were being made. As a result the external auditors are aware of this issue and have raised the possibility of additional testing being incurred. This would require payment of additional fees.

22. In addition to these issues, as identified above the accountancy service will transfer to an external provider on 1 August, during the period when the final accounts are being audited. The external auditors are aware of this transfer and we understand that they are endeavouring to undertake as much work as possible before 1 August to avoid any possible issues. That said, we believe the risk to the audit process to be minimal as, in the short run at least, the expectation is that most, if not all accountancy staff will continue to be employed on site in more or less their current roles.

Financial Implications

23. There are no direct financial implications arising from this report.

Legal Implications

24. None

Risks

25. None

Other Implications

26. None

Conclusion

27. In preparing for the 2015/16 final accounts process there are a number of issues that committee needs to be aware of which have been covered in this report.

Background Papers

None