



# AUDIT COMMITTEE

2 March 2016

# REPORT

<b>Subject Heading:</b>	Closure of Accounts Timetable 2015/16
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<b>Policy context:</b>	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2015/16
<b>Financial summary:</b>	There are no direct financial implications to the report. However, the increased disclosure requirements relating to Infrastructure assets will give rise to additional costs in terms of software enhancements and the valuation of assets. These are expected to be contained within existing budgetary provision.

## The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[ ]
Excellence in education and learning	[ ]
Opportunities for all through economic, social and cultural activity	[ ]
Value and enhance the life of every individual	[ ]
High customer satisfaction and a stable council tax	[x]

## SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2015/16 Accounts.

## RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2015/16 closure of accounts.

## REPORT DETAIL

### 1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2014/15.

There are relatively few technical changes required in 2015/16 under The Code of Practice but, locally, the timetable for the closure of the accounts has been brought forward in preparing for earlier statutory deadlines from 2017/18. We also have new auditors (Ernst and Young, replacing PricewaterhouseCoopers); the audit coverage will be similar, but the new auditors will need to form their own opinion over our procedures and there may be detail changes in the audit work undertaken.

The priority for the closure programme is to ensure that all key activities have been captured in the timetable, and that roles and responsibilities have been identified and understood.

### 2. Key Issues

The following is an update on the key issues to be addressed during the 2015/16 closedown.

#### 2.1 Change of Auditors

Ernst and Young (EY) have replaced PricewaterhouseCoopers (PWC) as the authority's external auditors with effect from April 2015.

EY will need to form their own opinion on Havering's systems and processes, and will not be able to rely on work carried out in previous years.

EY will also be auditing Newham's accounts; this could give scope for harmonising processes across the two authorities (particularly once Newham on-board to One Oracle), but potential for this is mitigated in the short term by EY having a separate team at Newham.

## 2.2 Preparing for Earlier Closure

The statutory deadline for having the draft accounts available for audit is being brought forward from 30<sup>th</sup> June to 31<sup>st</sup> May from 2017/18, and the deadline for completion of the audit and publication of the accounts is being brought forward from 30<sup>th</sup> September to 31<sup>st</sup> July.

In order to speed up the year-end closedown process, it will be necessary to estimate the end position. This may apply to a number of activities but will certainly include requesting data earlier from external parties relating to:

- The valuation of Assets including Property Plant and Equipment and Infrastructure assets, to determine for example impairment charges
- The valuation of year end pension liabilities from Pension Fund actuaries

Use of such techniques will enable major year-end processes to be started prior to year end; but could also bring a heightened risk of material misstatement needing to be addressed during the audit.

## 2.3 Highways Infrastructure

From 2016/17, local authorities are required to include Highways Infrastructure on their balance sheets at net replacement cost, as opposed to the depreciated balance of past expenditure as at present. This will have a very major impact on the value of net assets for all authorities, but will have no impact on usable resources or the council tax requirement.

Infrastructure assets have now been valued on the required basis and the related data has been used to provide the Government with information required in Whole of Government Accounts. However, there is still a significant amount of work to be done to establish the correct accounting entries in restating the 2015/16 balance sheet to give the 2016/17 opening balances.

## 2.4 Transformation and oneSource

### • Service Reviews

The implementation of Service Reviews will impact on responsibilities for specific parts of the accounts, with staff needing to become familiarised with new roles, procedures and systems. The sharing of functions will also impact on the audit coverage, with activity relating to Havering needing to be covered at Newham, and vice versa; the consequences of harmonising audit coverage are being followed up with the new auditors, Ernst and Young.

Significant areas affected for 2015/16 include the Collection Fund, with Council Tax being administered at Havering and Business Rates being administered at Newham. The Collection Fund impacts on all the prime statements in the accounts and any delay in this data being available will impact on finalisation of the accounts.

### • Implementation of One Oracle at Newham

Supporting the April 2016 on-boarding of Newham to One Oracle will potentially necessitate the support of staff pivotal to the successful

closure of accounts. Reconciliations need to be completed by 15 April, and diversion of resources could increase the risk of:

- error or misstatement in Havering's accounts;
- audit issues being identified, increasing workload in responding to the auditors; and
- compromising achievement of the earlier closedown timetable, resulting in earlier closedown not being embedded for 2016/17.

Managers are aware of the accounts timetable and are managing the competing demands by, for example, ensuring reconciliations are completed in a timely manner.

### **3. Progress to Date**

3.1 The closedown planning process began in earnest in November 2015. The process is being monitored routinely by Corporate Finance, and regular reports will be made to both Corporate Management Team and Audit Committee.

3.2 The finalised timetable for the year end closure of accounts is on the intranet and is being monitored. Regular meetings have been scheduled until June 2015. The timetable has been aligned with Newham's timetable where possible, and this will be further developed for 2016/17 once Newham have adopted One Oracle from April 2016.

3.3 EY carried out walk through tests on various processes during their interim audit in January. Initial feedback to officers indicated that these have progressed well and to date they have not communicated any significant issues arising.

They have also issued their draft list of working papers required for their audit. Officers have responded on individual requests, but the working paper requests are similar to those from their predecessors PWC.

### **4. Progress against matters raised by the external auditors in the Report to Management (ISA 260)**

#### **4.1 Bank Accounts**

As reported to Audit Committee on 24 September 2015, the only issue highlighted by PWC in the ISA260 report relating to the main accounts was un-reconciled balances on two of the bank accounts. This was due to supporting documentation not initially being provided to PWC to explain and evidence the balance; this was an oversight that was immediately rectified.

**IMPLICATIONS AND RISKS**

**5. Financial Implications and risks:**

- 5.1 A risk log has been prepared for submission to CMT.
- 5.2 There are risks associated with oneSource and Newham's implementation of One Oracle, as staff may be re-deployed or temporarily re-assigned to support the implementation. These risks should be mitigated by the project management approach to the closedown process ensuring that tasks are assigned to individuals/teams with a clear understanding of deadlines and requirements.
- 5.4 Ernst and Young, the new auditors, will not be able to rely on findings from previous years' audits and will need to form their own audit opinion over Havering's financial procedures and systems. Although the audit coverage will be similar to previous years, there may be a change of emphasis in the detail of the work carried out. This could initially result in additional officer time in responding to audit queries and in responding to any audit recommendations arising therefrom. This will be contained within the statutory timetable for the publication of the accounts.

**6. Legal Implications and risks:**

Section 21 of the Local Government Act 2003 requires that accounting practices including the Statement of Accounts be undertaken in accordance with proper practices set out in relevant regulations. The Local Authority must also have regard to the code of Practice on Local Authority Accounting for 2015/16 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1<sup>st</sup> April 2015/.

There are no apparent legal implications in noting the content of this Report.

**7. Human Resources Implications and risks:**

None arising directly.

**8. Equalities and Social Inclusion Implications and risks:**

None arising directly

**BACKGROUND PAPERS**

None