



AUDIT COMMITTEE

Subject Heading:	Closure of Accounts Timetable 2016/17
CMT Lead:	Debbie Middleton
Report Author and contact details:	Contact: Hussein Ahmed Designation: Acting Chief Accountant Telephone: 020 3373 1702 E-mail address: Hussein.Alanezi@oneSource.co.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2016/17.
Financial summary:	There are no direct financial implications to the report.

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2016/17 Accounts.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2016/17 closure of accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2015/16 by the statutory deadline of 30th June 2016.

There are relatively few technical changes required in 2016/17 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.

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.

The main risk areas relate to the need to embed the oneSource Finance and other services structures.

2. Preparing for Earlier Closedown

2.1 The statutory deadline for having the draft accounts available for audit is being brought forward. Furthermore, the amount of time available to auditors to complete their assurance work is also being reduced by a third. These changes are summarised in the table below.

	FY 2016/17	FY 2017/18
Draft Accounts prepared by	30 th June 2017	31 st May 2018
Accounts Audited by	30 th September 2017	31 st July 2018

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

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- 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

2.2 Progress in 2015/16

Preparations for earlier closure were commenced in 2015/16 by bringing forward timetable deadlines for Services. With exceptions, Services achieved the earlier deadlines; in particular, schools data was consolidated into the accounts ahead of the timetable, and the Pension Fund accounts were available by the end of May.

As reported to Audit Committee on 22 June 2016, this gain was lost due to

- the launch of the finance transformation review in April 2016 which led to resources being re-directed to that process at key points in the closedown programme, and
- a delay in the Capital closedown programme as a consequence of additional testing requirements associated with an upgrade in the Asset Register and staff vacancies in the capital accounting team. Capital remains the most complex year end procedure and has a major impact on the financial statements.

3. Transformation and oneSource

3.1 In addition to bringing forward the timetable, there are a number of further risks arising from the need to embed recent Service reviews.

3.2 Finance

3.2.1 Finance has undergone a major restructure involving staff from Bexley, Havering and Newham Councils. The new structure was completed in December 2016 and went live on 9th January 2017. Interim arrangements are being implemented to cover posts currently not filled. Closure of the 2016/17 accounts is being managed by the interim oneSource Chief Accountant (Hussein Alanezi) across the three authorities reporting to the Head of Finance (Financial Control and Corporate Business Systems) (Radwan Ahmed), and handover arrangements are in place to support the preparation of the 2016/17 accounts.

The auditors, Ernst and Young, are aware of the changes in management structure, and will be meeting with both the outgoing Head of Corporate Finance, and Head of Finance as part of handover arrangements.

3.3 Revenues and Transactional

3.3.1 Collection Fund

The Collection Fund impacts on all of the prime statements. In 2015/16 there was a delay in receiving NNDR data and if other deadlines can be met

for 2016/17, any delay in the availability of Collection Fund data will could have a detrimental impact on the critical path.

4. Other Issues

4.1 Auditors

The auditors, Ernst and Young are also the auditors for Newham (but not for Bexley) and are aware of the staffing changes that have been implemented. Ernst and Young will be asked to harmonise audit processes across Havering and Newham where possible, particularly since both Councils now operate the same instance of 1Oracle, and share support staff for common transactional services.

4.2. Highways Infrastructure

It had been intended that, from 1st April 2016, local authorities would be required to include Highways Infrastructure on their balance sheets at an estimate of the current cost, as opposed to the depreciated balance of past expenditure as at present. This has now been deferred pending confirmation by CIPFA LASAAC, but is anticipated to be in financial year 2017/18.

The change will have a very major impact on the value of net assets reported 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.

4.3. Changes to the Code: "Telling the Story"

The 'Telling the Story' review introduces a new note to the Code, the expenditure and funding analysis, which aims to provides a direct and accessible reconciliation between the way local authorities are funded and prepare their budget and the comprehensive income and expenditure statement. Local authorities are now required to report their comprehensive income and expenditure statement on the same basis as they are organised rather than in accordance with the Service Reporting Code of Practice (SeRCOP). This will include the restatement of prior year figures for the purposes of comparison.

4.4 Group Accounts

With the setting up of Havering's wholly owned subsidiary - Mercury Land Holdings Ltd - it will be necessary to complete group accounts for 2016/17. This should not be a major issue for 2016/17 due to limited operations. However, as Mercury Land Holdings expands its activities it will become a significant consolidation risk in the future. Additional allocation has been built into the timetable to allow necessary review process for the group consolidation activity.

5. Progress to Date

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- 5.1 The closedown planning process began in earnest in November 2016. The process is being monitored routinely by Financial Control & Corporate Business Systems staff, and regular reports will be made to both the Strategic Leadership Team and Audit Committee.
- 5.2 The finalised timetable for the year end closure of accounts is on the intranet and its implementation is being monitored, with current tasks on schedule. Regular meetings have been scheduled until June 2017. The timetable has been aligned with Newham's and Bexley's timetables where possible, and this will be further developed for 2017/18.

The key deadlines include the following:

<u>Deadline</u>	<u>Task</u>
Wed 12/04/2017	Final deadline for Services journals including schools consolidation, and capital
Wed 12/04/2017	oneSource Outturn sign off – Jane West / Deborah Hindson / Debbie Middleton / Alison Griffin
Fri 21/04/2017	Final Benefits and Collection Fund Journals Capital Expenditure and financing agreed (including schools)
Fri 28/04/2017	Input final journals
Tue 02/05/2017	Open CP for Outturn
Fri 05/05/2017	Provisional outturn to Director of Finance for review
Tue 23/05/2017	CMT Business Meeting - Capital Outturn Report, Final confirmatory Outturn Report
Thu 25/05/2017	Draft Statement of Accounts signed by Section 151 Officer

- 5.3 Ernst and Young are scheduled to carry out walk through tests on various processes during their interim audit in February 2017, and will undertake transaction testing for periods 1-9. A verbal update will be provided to the Committee on any issues arising from the interim audit.

6. **Progress against matters raised by the external auditors in their Annual Audit Letter**

Ernst and Young presented their Annual Audit Letter to Audit Committee on 29 November 2016. The purpose of the Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they considered should be brought to the attention of the Council.

The issues identified as requiring attention included:

- The valuation of investment property and property, plant and equipment
The Council had not assessed whether there had been any significant

movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date of 31 March 2016. Additional work was undertaken by the valuer, which identified that there had been an upward movement in values of around 10%. As a result, it was estimated that the value for council dwellings in the accounts had been understated by £44 million. The accounts were amended to reflect this updated valuation.

- **The medium term financial plan and key assumptions**

Work is ongoing to address the budget gaps in 2017/18 and 2018/19, whilst maintaining reserves at the Council's recommended minimum levels. The Council has established a process for the identification of savings and income generation proposals for 2017/18 and 2018/19, but would need to consider its approach towards the identification of savings in 2019/20 and beyond. This is being addressed as part of the budget strategy for 2017/18 and beyond.

- **Written Instructions to Valuers**

The Council used an internal valuer to undertake the valuation of certain property assets in 2015/16, but did not issue formal instructions. This has been addressed in closing the 2016/17 accounts to ensure that valuation work is undertaken in accordance with relevant guidance and statutory requirements.

- **Social Care System Reconciliations**

When testing expenditure, the auditors noted that the transactions recorded in adult social care system were not reconciled to the general ledger. They noted that the Council has now addressed this issue and reconciliations of transaction data to the general ledger in relation to adult social care commenced in 2016/17.

IMPLICATIONS AND RISKS

Financial implications and risks:

Risks to the closedown process are as identified in the body of this report. A risk log has been prepared for submission to the oneSource Finance Management team.

The main risk for 2016/17 closedown arises from the bedding in of the new oneSource structures. These risks will 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 and are adequately resourced.

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 2016/17 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2016.

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

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

None in this report.