Havering
LONDON BOROUGH

# AUDIT COMMITTEE **19 February 2014**	

Subject Heading:	Closure of Accounts Timetable 2013/14
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Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2013/14
Financial summary:	There are no direct financial implications to the report. However, the increased disclosure requirements relating to Infrastructure assets will give rise to additional valuation costs which will need to be reflected in the MTFS.

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 Accounts 2013/14.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2013/14 closure of accounts.

REPORT DETAIL

1. Background

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The Council successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis in 2012/13. Planning for the 2013/14 closedown began in October 2013.

The Statement of Accounts is prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting. Having reviewed the Code for 2013/14 there are no significant changes from last year. Any minor changes will be incorporated into the closedown process if appropriate. The closure timetable and guidance for officers have now been issued and progress will continue to be monitored throughout the process.

Many of the risks associated with closure relate to the increasing call on staff time for other project work during the closedown process. These matters are discussed below.

2. Key Issues

The key issues to be addressed during the 2013/14 closedown are as follows:

2.1. Public Health Transfer

Public Health services in Havering moved to the Council in April 2013. 2013/14 will be the first year of reporting with Public Health. A new Service Expenditure Analysis (SEA) for Public Health has been added to the Service Reporting Code of Practice (SeRCOP) and explains how expenditure on those responsibilities, funded by a grant from the Department of Health, and any additional expenditure on those responsibilities, should be recorded. The proposed mandatory lines are set out in the 2013/14 SeRCOP

2.2. Council Tax Benefit System reform

The Welfare Reform Act 2012 abolished the National Council Tax Benefit scheme from April 2013 and the Local Government Finance Bill enables Local Authorities to design their own local council tax support schemes. The accounting disclosures need to be updated in order to reflect these changed arrangements.

2.3. Localisation of Business Rates

The Local Government Finance Act 2012 introduces a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. At the same time, business rate collection has been brought in house following the termination of the contract with Barking and Dagenham. There are potential risks of managing these new arrangements at closedown and staff involved in the process need to be aware of the revision in reporting requirements.

2.4. One Oracle Project

The likely date for the implementation of One Oracle (OO) is April 2014. Key staff involved in the closedown programme will also be required to carry out key elements of the OO implementation programme. This gives rise to a significant risk of resources being diverted from both the closure and audit of accounts in order to support OO implementation and provide training on Oracle Projects. The Closedown programme has little scope for slippage and is driven by statutory closedown an publication requirements

2.5. One Source

The One Source project set to be implemented in April 2014 may put an additional drain on staff time involved in the closure process.

2.6. Pension Fund Local Infrastructure Procedures

It is anticipated that the Council will make a one off investment in the Pension Fund which must be made by 31 March 2014 in order to meet the requirements of the external actuary. In order to facilitate this arrangement, the Pension Fund has created a Local Infrastructure portfolio and approved the associated governance arrangements. However, qualifying schemes will need to be identified and formally approved prior to year end.

2.7. Infrastructure Assets

Infrastructure assets include roads, highways, bridges and street furniture. These assets are currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. CIPFA’s code of practice on Transport Infrastructure Assets includes a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis. In order to comply with the code it will be necessary to identify all such assets, with appropriate measurements and then establish the cost of replacing these assets at current prices. Valuations would need to be updated regularly in order to ensure compliance with The Code.

The implementation of Infrastructure accounting has been delayed by DCLG and it is proposed that it be introduced in 2015/16 with a dry run in 2014/15. However, there will be a need to disclose comparative data in respect of the 2014/15 accounts and a re-stated Balance Sheet as at 31 March 2013 within the 2015/16 published accounts. Officers have begun the process of collecting the necessary valuation data and are working towards the achievement of these deadlines

The Whole of Government Accounts (WGA) return included a requirement to record infrastructure assets on a Depreciated Replacement Cost (DRC) basis in 2012/13 (albeit in a more summarised format). The 2013/14 return is expected to require additional disclosures. However, the collection of data for these purposes will assist in developing the data requirements for the statutory accounts.

2.8 Audit and Publication

Despite the pressure on resources from servicing One Oracle, One Source and other initiatives, The Authority needs to ensure that it meets the statutory deadlines for closedown. Failure to do so will result in additional audit scrutiny, additional cost, and an adverse effect on The Authority's reputation.

In view of these additional pressures it is essential that the timetable is strictly adhered to. Steps will also be taken to encourage staff to complete closedown tasks earlier than timetabled or to carry out preparatory work in advance of year end.

3. Progress to Date

The final year end closure of accounts timetable has been issued and is being monitored. Regular meetings have been scheduled until the end of June 2014.

The guidance notes have been consulted upon and the final documentation issued at the end of January 2014.

Reports will be made to both Corporate Management Team and Audit Committee on both the progress and outcome for 2013/14.

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

a) Treatment for construction and transfer of academies

The Auditor's proposed an alternative approach than that adopted by the Authority with regard to the treatment of expenditure incurred in building the Draper's Academy. However, it was agreed that there is a lack of clarity in relation to the correct accounting treatment and it is noted that the treatment of Academy Schools is subject to on-going consideration by CIPFA/LASAAC. As the two approaches were not materially different the Auditor's were not minded to challenge The Authority's approach. No similar transactions are expected to arise in 2013/14.

b) Judgements and Accounting Estimates - Valuation of Property, Plant, Equipment (PPE) and Investment Properties

The Auditor's considered that the assumptions used by the Council's external valuers WH&E, to value PPE to be too simplistic. They recommended that the approach for the 2013/14 accounts be discussed and an approach agreed between their internal valuers, WH&E and the Council's internal property team. These discussions are on-going and will inform the 2013/14 valuation process.

c) Payroll Reconciliation

During the 2012/13 financial year the Authority was unable to complete the payroll reconciliations for the year end in a timely manner. The Auditor's recommended that the payroll reconciliation should be reconciled jointly by the payroll and finance teams. ISS management have discussed with The Auditors the format of the reconciliations and agreed a revised format to be put in place for 2013/14. The automation of the payroll reconciliation report is still in development therefore ISS is still reliant on Business Systems resources to produce adhoc reports.

Financial Implications and risks:

The technical accounting changes arising from the revisions to The Code of Practice do not give rise to any direct financial implications. However, if the Council fails to meet the statutory deadlines for closure resulting in additional audit scrutiny then there would be increased cost pressures.

The valuation of infrastructure assets will generate additional cost pressures which will need to be contained within the MTFS from 2014/15.

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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 2013/14 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2013.

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

Human Resources Implications and risks:

None arising directly.

Equalities and Social Inclusion Implications and risks:

None arising directly

CHERYL COPPELL
Chief Executive

Background Papers List

None