Havering
LONDON BOROUGH

AUDIT COMMITTEE — REPORT

2 December 2014

Subject Heading:	Closure of Accounts Timetable 2014/15
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Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2014/15
Financial summary:	There are no direct financial implications to the report. However, the increased disclosure requirements relating to Infrastructure assets may require additional costs to be incurred in relation to the valuation and review of those assets.

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 2014/15.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2014/15 closure of accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2013/14.

There are a number of technical changes required under The Code of Practice and for local reasons in 2014/15. The priority for the closure programme is to ensure that all key activities have been captured in the timetable and roles and responsibilities identified and understood.

2. Key Issues

The key issues to be addressed during the 2014/15 closedown are as follows:

2.1. Voluntary Aided and Foundation Schools

In October 2012, the Chartered Institute of Finance and Accountancy (CIPFA) published a Financial Reporting Advisory Board Paper on the Exposure Draft of the Updated Code of Practice on Local Authority Accounting 2011/12 and the 2012/13 Code. This recommended that Foundation and voluntary aided schools should not normally be recognised on the balance sheets of local authorities as their assets are not usually deemed as being owned by the authority. Arising from this, and on the direction of the Council's auditors PricewaterhousCoopers, the Council removed these schools from its balance sheet.

However, following adoption of IFRS 10 Consolidation of Financial Statements, CIPFA is now of the view that "*the single entity financial statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority*". Local authority maintained schools are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools; accordingly, voluntary aided and Foundation schools will need to be brought back on to the Council's balance sheet for 2014/15.

We are considering with the auditors the presentation of prior year figures with the auditors, and liaising with the valuers over current values of the assets involved.

2.2. 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. The Whole of Government Accounts guidance has included a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis since 2012/13. It will be necessary to identify all such assets, with appropriate measurements, and then establish the cost of replacing these assets at current prices (in accordance with The Code of Practice on Transport Infrastructure Assets). Valuations would need to be updated regularly in order to ensure compliance with The Code.

Recognition of infrastructure within the Council's accounts has now been deferred to 2016/17. But it will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements* as adopted by The Code.

We are therefore establishing information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure to enable us to establish opening balances of the assets for 1 April 2015 and comparative information on transactions in the preceding year, i.e. 2015/16.

The Council will also need to disclose in the 2015/16 financial statements

i) narrative explaining that transport infrastructure assets are to be recognised as a separate class of property, plant and equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements
ii) the carrying amount of assets expected to be reclassified as transport infrastructure assets, i.e. the original 1 April 2015 measurement at depreciated historical cost
iii) the expected amount of any revaluation gains and losses to be recognised on reclassification and re-measurement, and
iv) the expected change in depreciation, impairment, revaluation gains and losses, gains and losses for disposals or decommissioned assets to be recognised (or derecognised) in 2015/16 comparatives in the 2016/17 financial statements.

2.3. One Oracle

Havering implemented the One Oracle self-service package from August 2014 in conjunction with five other London authorities. The new coding structure has been incorporated into updated working papers for preparing the accounts, and work is ongoing in resolving other balance sheet issues from mapping from the previous Havering system.

There will also be implications on the audit in that the auditors will need to verify the balance sheet has been mapped correctly and will need to select their transactions for sample testing from two systems.

2.4 oneSource

The Council entered a joint arrangement with Newham from April 2014 for the provision of back office services. Development of this is ongoing, but there will be additional disclosures required in the notes to the accounts and the recharging process between the two Councils needs to be included in the closedown timetable.

However, oneSource poses risks to closedown in that key staff are supporting Newham in implementing One Oracle. Additionally, the implementation of new structures in oneSource services means that closedown duties of individual staff may be changing.

The implications of this are that

i) critical parts of the accounts may not be completed in accordance with the timetable, with consequential impact on subsequent deadlines;
ii) there is a potential need for additional audit work, and an increased risk of adverse audit findings in the auditors' ISA260 report.

3. Progress to Date

The finalised year end closure of accounts timetable will be issued shortly and monitored. Regular meetings have been scheduled until June 2015. The timetable will be aligned with Newham's timetable where possible, but scope for harmonisation of procedures is limited until Newham adopt One Oracle from 2015/16.

The guidance notes are being consulted upon and will be issued in early January 2015.

The closedown planning process began in earnest in November 2014. The process will be monitored routinely by Corporate Finance. Regular reports will be made to both Corporate Management Team and Audit Committee.

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

4.1 Bank A/c

All five bank accounts were reconciled by the due date, but the wrong documentation was initially supplied to the auditors. These accounts are reconciled on a daily basis and have a monthly summary/reconciliation at the end of each month and at the end of year. Receipts are cleared on a daily basis, and any items not allocated at the end of each day are dealt with as information comes to light to enable them to be identified.

There was a balance of £29k on the Number 1 account due to some un-presented cheques not being reconciled at the start of the audit due to a reporting issue/error. However, the account had been reconciled on a daily and summarised on a monthly basis throughout the year. This was resolved and cleared with the auditors.

During the last quarter of 2013/14 and the first quarter of 2014/15, staffing secondments and the parallel introduction on One Oracle contributed to temporary under resourcing in the Team, although it continued to fully cover the bank reconciliation workload.

4.2 Payroll Rec

The payroll reconciliation was handed over to Payroll during 2013/14, but support was required at the year end from the Systems Team. This function is now undertaken by Payroll, who are completing it on a monthly basis.

4.3 Accruals
4.4 Revenue Financing for Capital

In the 2013/14 accounts, the auditors identified errors in accruals that should or should not have been raised. Similarly, the auditors identified two instances of expenditure being charged to revenue that should have been capitalised. The latter had no impact on the revenue bottom line as this expenditure would have been funded as a revenue contribution to capital, but the accounting treatment was wrong.

The amounts from these issues were not material to the Statement of Accounts, but for 2014/15 Corporate Finance will be liaising with Operational Finance to ensure cost centre managers are aware of the accounting requirements relating to the raising of accruals and to capital expenditure.

IMPLICATIONS AND RISKS

5. Financial Implications and risks:

5.1 The technical accounting changes arising from the revisions to The Code of Practice do not give rise to any direct financial implications. However, the more complex accounting and valuation requirements associated with schools and infrastructure assets will generate additional work and may give rise to increased cost pressures. In particular, it will be necessary to introduce a regular valuation programme for all infrastructure assets in order to value them on a Depreciated Replacement Cost (DRC) basis instead of Depreciated Historic Cost (DHC).

5.2 The new coding structure for One Oracle will impact on the carrying out of reconciliations at the year end. This could impact on the closedown timetable and will be subject to additional scrutiny by the auditors.

There is a planned downtime of the four days of the Easter weekend plus two additional days due to Newham on-boarding on to One Oracle in April 2015. This will have minimal impact, but any overruns will impact on the closedown timetable.

5.3 Secondments arising from oneSource and Newham's implementation of One Oracle, and the embedding of new structures from the staffing reviews, could again impact on the closedown timetable.

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 2014/15 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2014.

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