Havering
LONDON BOROUGH

AUDIT COMMITTEE REPORT

11 March 2015

Subject Heading:	Closure of Accounts Timetable 2014/15
	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@oneSource.co.uk
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 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 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.

At the time of the audit of the main accounts (September 2014), statutory deadlines for production of the Pension Fund report and the timing of the audit programme meant that the audit work had as that date not been finalised. This work was subsequently completed ant the concluding statement was issued by PWC on 27th November.

There are a number of technical changes required in 2014/15 under The Code of Practice, and for local reasons. The priority for the closure programme is to ensure that all key activities have been captured in the timetable, and 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 2014/15 closedown, as previously reported to Audit Committee on 2nd December 2014.

2.1. Voluntary Aided and Foundation Schools

The Chartered Institute of Finance and Accountancy (CIPFA) has confirmed its 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 accounts for 2014/15.

We have met with the auditors to agree the presentation of prior year figures, and liaised with the valuers over current values of the assets involved.

2.2. Infrastructure Assets

Infrastructure assets (including roads, highways, bridges and street furniture) 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.

From 2016/17, these assets will need to be included within the Council's accounts on a DRC basis. This 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.

Data collection arrangements are in hand to enable opening values as at 1st April 2015 to be presented in the restatements required for the 2016/17 accounts, and budgetary provision has been made for the costs of the revaluations.

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 2014/15 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 on-going, and we will need to make additional disclosures in the notes to the accounts. The deadlines for the recharging process between the two Councils have been included in the closedown timetable.

However, oneSource poses risks to closedown in that key staff involved in the closedown process are also supporting Newham in implementing One Oracle. Additionally, the implementation of new structures in oneSource services may create a period of uncertainty as closedown duties of individual staff involve in specific parts of the accounts may be changing or transferring between the two Councils..

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

3.1 The closedown planning process began in earnest in November 2014. 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 year end closure of accounts timetable has been issued and is being monitored. Regular meetings have been scheduled until June 2015. The timetable is being aligned with Newham's timetable where possible, but scope for harmonisation of procedures is limited until Newham adopt One Oracle in 2015/16.

3.3 PWC have issued their draft *External audit plan 2014/15 for the statement of accounts and pension fund accounts audits.* This is included as Appendix A to this report.

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 2nd December 2014, the wrong documentation was initially supplied to the auditors, and 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. 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. These issues are not expected to re-occur during the 2014/15 audit.

4.2 Payroll Reconciliations

Following the implementation of One Oracle from 4th August 2014, the non-functioning of the payroll reconciliations to General Ledger has repeatedly been raised by Havering and partner One Oracle authorities with Cap Gemini, but no solution has been made available.

But Havering has re-written the Structured Query Language to fit in with the One Oracle restrictions and have now created the files from August to reconcile. We are currently resolving issues concerning changes in the One Oracle configurations and the picking up of data files, and expect to have made available for PWC during their interim audit (week commencing 2nd March) .reconciliations for pensioners and payroll reconciliations at least until December

We anticipate that all payroll reconciliations for the year will be available to auditors for their main audit from July.

4.3 Accruals, Revenue Financing for Capital

In the 2013/14 accounts, the auditors identified errors in accruals that should or should not have been raised, and two instances of expenditure being charged to revenue that should have been capitalised.

Corporate Finance has issued initial guidance to cost centre managers and will continue to liaise 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 A risk log has been prepared for submission to CMT.

5.2 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 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). The enhancements and additional software costs relating to these requirements have cost around £25k. The on-going cost of re-valuation will be dependent upon the frequency , range and complexity of the valuation requirements but at this stage is expected to be contained within existing budgetary provision.

5.3 The new coding structure for One Oracle will impact on the carrying out of reconciliations at the year end. This is being managed carefully to mitigate any impact on the closedown timetable, but reconciliations are likely to be subject to additional scrutiny by the auditors.

5.4 There are also 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.

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.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Appendix A

London Borough of Havering

PWC External audit plan 2014/15 for the statement of accounts and pension fund accounts audits