Havering
LONDON BOROUGH

AUDIT COMMITTEE

21 December 2011

Subject Heading:	Closure of Accounts Timetable 2011/12
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Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2011/12
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 2011/12.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2011/12 closure of accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis for the first time in 2010/11.

There are a number of technical changes required under The Code of Practice in 2011/12. However, the Council has undergone major re-organisational changes during the year including the replacement of its core financial systems. 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 2011/12 closedown are as follows:

2.1. 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 includes a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis in 2011/12. 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.

The phasing is expected to be over a three year period as set out below. In 2011/12 and 2012/13 the Council can opt to make a minimum disclosure by way of a note to the accounts with full disclosure in 2013/14.

In 2013/14, the Council’s Balance Sheet valuation will increase significantly as would the annual depreciation and impairment charges to the related service revenue accounts. However, there would be no impact upon the Council’s revenue out-turn as depreciation and impairment charges are reversed out through the

Capital Adjustment Account. The precise requirements are currently being evaluated by officers.

Year	Requirement
2011/12	Whole of Government Accounts full dry run on DRC basis
2012/13	Voluntary note to the Statutory Accounts
2013/14	Full disclosure

2.2. Accounting for Academies

The net assets of Academy schools will need to be removed from the Council's balance sheet and the associated revenue transactions will no longer be recorded in the Council's accounts. These transactions will be removed from the date of transfer to Academy status.

2.3. Foundation and Voluntary - Aided Schools

In 2010/11 it was determined that all Foundation and Voluntary - Aided Schools should be removed from the Council's accounts in order to comply with the requirements of the IFRS code. This was carried out successfully in 2010/11 albeit on a manual basis. In 2011/12 the focus will be in ensuring that these adjustments are embedded within the accounting and closedown arrangements.

2.4. Internal Shared Services

The creation of the Internal Shared Services structure brought with it a fundamental review of both the organisational structure and the financial systems. This will be the first year that closedown has been carried out under these new arrangements. The following matters are more important than ever in ensuring a successful closedown in 2011/12.

a) Clarity of roles and responsibilities
Each task needs to be identified and assigned to a specific individual. These tasks may be carried out by cost centre managers, Internal Shared Services staff or Corporate Finance staff the named individual should be clear as to the requirements of the task, when it should be completed and to whom it should be reported.

b) Completeness and accuracy of Information
In year transactions must be captured and recorded against the correct code. Year end cut off arrangements need to be properly understood and managed effectively. All reconciliations should be finalised and records maintained for audit inspection.

c) Timeliness of year end activities
In order to comply with statutory guidelines all year end activities must be completed in accordance with the timetable.

d) Year end reporting
The key reports required to produce the statutory accounts must be identified, developed and tested.

3. Progress to Date

The draft year end closure of accounts timetable and guidance notes have been extensively re-rewritten in order to properly reflect the organisational and systems changes resulting from the creation of Internal Shared Services. Corporate Finance staff have met with Internal Shared Services staff on a regular basis in order to identify changes in responsibilities, systems and related processes. The draft documentation is currently subject to consultation and will be issued in January 2012.

The closedown process will begin in earnest from January 2012. 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 (ISA260)

a) IFRS transition
An unadjusted error was identified during the course of the audit which related to our IFRS transition. As a consequence, the Council's Property Plant and Equipment was understated by £3m, or less than 1% of the net book value of Property, Plant & Equipment as disclosed on the Balance Sheet. However, this had no impact on the revenue out-turn or the level of useable reserves. The correction will be reflected in the 2011/12 accounts.

b) Component Depreciation
In common with most other authorities, we have adopted a de-minimus threshold below which assets are not componentised. We understand that our external valuers, Wilkes Head and Eve have adopted this valuation approach with other clients. Our auditors, PricewaterhouseCoopers have recommended that component depreciation be fully implemented.

In 2011/12 a further tranche of assets will be revalued. As such, some assets may require componentisation; others will fall below the de-minimus threshold. We believe that the application of a de-minimus threshold is an effective and efficient way of managing the process. However, we acknowledge that this approach must be kept under review to ensure that the accounting disclosures are not materially affected. A meeting has been included in the draft timetable in order to discuss the policy with our Valuers and PwC.

IMPLICATIONS AND RISKS

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, 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).

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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 2011/12 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2011.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

Background Papers List