

REPORT TITLE: PLANNING FOR AND AUDIT OF THE 2017/18 ACCOUNTS

8 MARCH 2018

REPORT OF PORTFOLIO HOLDER: Councillor Ashton, Portfolio Holder for Finance

Contact Officer: Liz Keys Tel No: Extension 2226 Email LKeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

The purpose of this report is to update the Committee on the actions taken to ensure that the Statement of Accounts for 2017/18 is fully compliant with statutory requirements and to make the Committee aware of changes impacting on the statements.

This report also introduces the external auditor's Audit Plan for the 2017/18 financial statements (see Appendix 1).

RECOMMENDATIONS:

1. That the Audit Committee notes this report in respect of the Council's Statement of Accounts for 2017/18.
2. That the Audit Committee approves the amendments to the disclosure of accounting policies.
3. That the Audit Committee notes the Audit Plan and asks any questions of the external auditors, Ernst & Young.

IMPLICATIONS:1 COUNCIL STRATEGY OUTCOME

- 1.1 Preparation of the Annual Financial Report is fundamental to the operation of the Council. Although not directly linked to an individual Council Strategy Outcome, achieving all the outcomes must go hand in hand with accounting for how taxpayers' money has been spent. Additionally, the Council has a statutory responsibility to publish a statement of accounts annually.

2 FINANCIAL IMPLICATIONS

- 2.1 None.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None.

4 WORKFORCE IMPLICATIONS

- 4.1 The new requirement to publish the Accounts by the earlier deadline of 31 May 2018 will require the Finance team to focus on the closedown to an even greater extent than in previous years, albeit for a shorter time. This will result in decreased capacity to give financial support to other areas of the business (e.g. major projects) and may result in additional costs for buying in specialist resource if business need and competing deadlines require it.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None.

6 CONSULTATION AND COMMUNICATION

- 6.1 Not required.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 None.

9 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Legal Failure to meet the statutory deadline for publication of the unaudited</i>	A comprehensive project plan for the delivery of the accounts closedown has been drafted and communicated.	None

Risk	Mitigation	Opportunities
<i>accounts</i>		
<i>Reputation The Accounts are qualified by external audit as being materially misstated.</i>	Accounting in accordance with the CIPFA Code of Practice. Early communication / agreement of accounting treatment with external auditors.	None

10 SUPPORTING INFORMATION:

Background

- 10.1 The purpose of this report is to inform the Audit Committee of the implications on the Statement of Accounts of the significant statutory and other changes applying to the 2017/18 financial year.
- 10.2 The Statement of Accounts is prepared in accordance with 'proper practices' as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations.

Accounts and Audit Regulations 2015

- 10.3 The Accounts and Audit Regulations 2015 came in to force from the 1 April 2015 and apply to all financial years starting on or after that date. These Regulations are fundamentally important to the process for preparing and publishing the Statement of Accounts. Amongst other things, the Regulations specify the standard to which the Accounts must be prepared; the approval and publication requirements; and how the rights of the public to take part in the process must be facilitated.
- 10.4 From 2017/18 legislation requires that the draft, pre-audit Statement of Accounts is signed by the Section 151 officer and published by 31 May, and that the audited Statement of Accounts is approved by Members, by 31 July.
- 10.5 The accounts are published alongside a new statement setting out the public inspection rights and arrangements. The public has 30 working days to inspect the accounts and may also ask questions of and make objections to the auditor at any point during this time. The process for the publication of the audited accounts otherwise remains largely unchanged.
- 10.6 The external auditors, Ernst & Young LLP, are undertaking 'pre-statement' work in February and March and will conduct the main audit work in June and July.

Statutory Changes - The Item 8 Credit and Item 8 Debit (General)
Determination from April 2017

- 10.7 The self-financing regime for the Housing Revenue Account (HRA) via the Localism Act 2011 was introduced in 2012/13. This statutory framework was established to allow depreciation to be a bottom-line charge for HRA long-term assets. However, transitional arrangements have applied for a five-year period, permitting authorities to negate any bottom line impact. During this period the Council has (as allowed under the previous regulations) used the Major Repairs Allowance as a proxy for determining depreciation. From April 2017 Authorities are required to calculate depreciation on all HRA properties in accordance with proper accounting practices. It is not anticipated that the revised method for calculating depreciation for 2017/18 is likely to result in a materially significant to the charges made in previous years.

Changes to the Accounting Code of Practice 2017/18 - Narrative Reporting

- 10.8 There has been a legislative requirement to publish a Narrative Statement alongside the Statement of Accounts since 1 April 2015. The 2017/18 Code introduces new guidance on a principles based approach to Narrative Reporting, setting out the key principles that local authorities should consider when preparing their report.
- 10.9 The Narrative Report's purpose is as a key document for communicating to stakeholders the authority's purpose; how it has performed in accordance with its overall strategy and against performance measures over the year; and how it has allocated its resources in line with intended outcomes.
- 10.10 The Code has set out a framework of 8 elements that local authorities should give consideration to when developing their report. The format of the 2017/18 Narrative Report will be revised in accordance with the revised Code guidance.

Changes to the Council's Accounting Policies

- 10.11 There are no proposed changes to our accounting policies in 2017/18. There are however, some proposed presentational changes to Accounting Policy disclosures to better reflect Code guidance, these are:
- The wording of the Overhead and Support Services policy to be updated to remove references to CIPFA's Service Reporting Code of Practice
 - Disclosure of the Council's policies: on Council Tax and Non-Domestic Rates; and the Community Infrastructure Levy to be added to the statements as follows:

○ ***Council Tax and Non-domestic Rates (England)***

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including

government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

○ **Accounting for Council Tax and NDR –**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

○ **Community Infrastructure Levy**

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this authority may be used to fund revenue expenditure.

Other Proposed Presentational Changes to the Council's Statements

- 10.12 The service analysis presentation in the Cost of Services will be changed in this year's Comprehensive Income & Expenditure Statement and the Expenditure and Funding Analysis (disclosure note 2) to reflect the basis on which financial performance has been internally reported to and monitored by

the Cabinet in 2017/18. The internal financial reporting basis used in 2017/18 differs from the directorate basis reported in previous years so it will be necessary to restate the 2016/17 Cost of Services comparators so they are consistent with the new basis of internal reporting.

10.13 The revised layout of the service portion of the Comprehensive Income & Expenditure Statement has been drafted as follows:

2016/17 RESTATED			2017/18		
Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
1,877	(346)	1,531	X	(X)	X
13,275	(9,647)	3,628	X	(X)	X
5,543	(478)	5,065	X	(X)	X
19,590	(29,507)	(9,917)	X	(X)	X
(27,611)	0	(27,611)	(X)	X	(X)
31,599	(29,738)	1,861	X	(X)	X
4,390	(382)	4,008	X	(X)	X
48,663	(70,098)	(21,435)	X	(X)	X

External Audit of the Financial Statements

10.14 Ernst & Young LLP have presented their Audit Plan, attached at Appendix 1, which sets out how they intend to carry out their responsibilities as auditor. Its purpose is to provide the Committee with a basis to review the proposed audit approach and scope for the 2017/18 audit in accordance with legislation and auditing standards. It is also to ensure that the audit is aligned with the Committee's service expectations.

11 OTHER OPTIONS CONSIDERED AND REJECTED

11.1 None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Other Background Documents:-

Cipfa Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

APPENDICES:

Appendix 1 – EY Audit Plan 2017/18

FOR OFFICER USE: TO BE COMPLETED BY OFFICER CLEARING REPORT						
Report clearance prior to CMT:			Officer Initials			
Finance Clearance: DK/NA/LK*						

Legal Clearance: LH/FS/MS*						
Report clearance prior to Leaders Board:	Officer Initials					
CMT clearance: LT/JH/ST*						

*please add initials to appropriate box once report has been cleared