

REPORT TITLE: PLANNING FOR AND AUDIT OF THE 2018/19 ACCOUNTS

7 MARCH 2019

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

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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 2018/19 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 Planning Report for the 2018/19 financial statements (see Appendix 1).

RECOMMENDATIONS:

1. That the Audit Committee notes this report in respect of the Council's Statement of Accounts for 2018/19.
2. That the Audit Committee approves the amendments to the disclosure of accounting policies.
3. That the Audit Committee notes the Audit Planning Report 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 and the Council has a statutory requirement to publish a statement of accounts annually. Although not directly linked to an individual Council Strategy Outcome, achieving all outcomes comes with a responsibility to account for how taxpayers' money has been spent.

2 FINANCIAL IMPLICATIONS

- 2.1 None.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None.

4 WORKFORCE IMPLICATIONS

- 4.1 None.

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 ASSESSEMENT

- 8.1 None.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None.

10 RISK MANAGEMENT

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

<p><i>Reputation – The Financial Statements are qualified by external audit as being materially misstated.</i></p>	<p>Financial statements are prepared in accordance with the CIPFA Code of Practice. Early engagement on potential accounting issues with external auditors.</p>	
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11 SUPPORTING INFORMATION:

Background

- 11.1 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 2018/19 financial year. 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.

Streamlining the Accounts

- 11.2 CIPFA has recently made available practical guidance on streamlining local government financial reporting. The aim of which is to improve the clarity and transparency of financial reporting by:
- Removing unnecessary detail
 - Considering the principal users, their information needs and focussing on key messages to be communicated.
- 11.3 The first step is to consider the information that is significant (or, in financial terms 'material') to the users of the Council's Financial Statements.

Accounts Preparation Materiality

- 11.4 The identified users of the Council's financial statements primarily refer to the Balance Sheet for high-level information about the Council's assets and liabilities but have a closer interest in the Council's expenditure on and funding of services.
- 11.5 It is proposed to set a higher materiality level of £1 million for items that would have an effect on the Balance Sheet; this represents a percentage of net assets of approximately 0.25%.
- 11.6 For items of income and expenditure a lower figure is calculated. A materiality level of £0.125 million is proposed for income and expenditure items that would impact on the Comprehensive Income and Expenditure Statement (CIES) this represents about 1% of the Council's net cost of services (if the HRA property revaluation impact is excluded).

- 11.7 For the purposes of disclosures in the accounts, a review has been undertaken of the need to include disclosure notes for any items below £1 million in the balance sheet and £0.125 million in the CIES.
- 11.8 In relation to CIES disclosures: the disclosure notes on Member Allowances; Officers' Remuneration; Termination Benefits and Exit packages; and Related Parties are identified as sensitive disclosures, which are material by their nature, and will be disclosed irrespective of their value.

Changes to the Council's Accounting Policies

- 11.9 There are no proposed changes to our accounting policies in 2018/19. However, we will remove policies for transactions that are not considered material to the Council's Financial Statements. Accounting policies for the following transactions will be removed:

- Intangible Assets
- Inventories
- Heritage Assets
- Leases

- 11.10 The following previous accounting policies, that defined accounting entries, will now appear only within the Glossary of Terms in the Annual Financial Report:

- Exceptional Items
- Contingent assets and contingent liabilities
- Prior period adjustments, changes in Accounting Policies and Estimates and Errors
- Events after the balance sheet date

- 11.11 The Financial Instruments policy disclosure will also be updated to reflect the new requirements of International Financial Reporting Standard (IFRS) 9.

Changes to Disclosure Notes within the Council's Financial Statements

- 11.12 We have reviewed the previous year Financial Statements and removed disclosure notes that are not considered material. The notes in the following table will be removed for 2018/19:

Description	17/18 Balance £000
Intangible Assets	167
Available for Sale Financial Instruments Reserve	(504)
Financial Instruments Adjustment Account	0
Deferred Capital Receipts Reserve	(86)
Collection Fund Adjustment Account	657
Leases - Finance Lease Lessee (Net Book Value)	482

- 11.13 We will also remove the note on Trading Operations which is not a Code or statutory reporting requirement.
- 11.14 Financial Instruments disclosures will also be amended to reflect IFRS 9 requirements.

Changes to the Accounting Code of Practice 2018/19

- 11.15 The International Financial Reporting Standards IFRS 15 and IFRS 9 were adopted by the 2018/19 Accounting Code of Practice. The resulting changes to the Accounting Code that could impact on the Council's 2018/19 Statement of Accounts are set out below.

IFRS 15 Revenue from Contracts with Customers

- 11.16 This standard introduces a new method of determining what obligations an authority has under contracts to provide goods and services; and how revenue is to be recognised as performance obligations are satisfied. We have reviewed the Code requirements of the new standard and have determined that it does not have a material impact on the Council's accounts and therefore does not result in any changed practices.

IFRS 9 Financial Instruments

- 11.17 The adoption of this standard has two main effects on the Council's Financial Statements. Reclassification of Financial Assets is required, and a new methodology for calculating impairment loss allowances is introduced.
- 11.18 There will no longer be a classification of financial assets referred to as *Available for Sale*. Some assets (investments in pooled funds) are being accounted for differently from 1 April 2018. Movements in their fair value will be recognised in the Surplus or Deficit on the Provision of Services in the CIES and affecting the Council's General Fund balance. However, to mitigate against this impact, the Government has recently issued a temporary (5 year) statutory reversal under which valuation movements will not impact on the General Fund in the short term.
- 11.19 The standard requires the Council to calculate an impairment loss allowance for some financial assets. This 'allowance' represents a weighted probability of losses on these assets. Prior to the 1 April 2018 the Council only recognised losses once they had actually been incurred. The new loss allowances will be required for much of the Council's portfolio of investments; however given that the Council's Treasury Management strategy is to invest in low credit risk investments, the impact on the General Fund is not expected to be material.
- 11.20 The other impact on the financial statements of the adoption of IFRS 9 is that revised Financial Instrument disclosures are required for: financial instrument accounting policies; IFRS 9 transition notes, breakdown of financial

instrument Balance Sheet and CIES entries and the analysis of financial instrument credit risk.

External Audit of the Financial Statements

11.21 Ernst & Young LLP have presented their Audit Planning report, attached at Appendix 1, which sets out how they intend to carry out their responsibilities as auditor. The report's purpose is to provide the Committee with a basis to review the proposed audit approach and scope for the 2018/19 audit in accordance with legislation and auditing standards, and ensure that it meets with the Committee's expectations.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Other Background Documents:-

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

APPENDICES:

Appendix 1 – EY Audit planning report year ended 31 March 2019