	Governance and Audit
	Tuesday, 12 March 2019

Subject: Accounts Closedown 2018/19 - Accounting Matters

Report by:	Executive Director of Resources
Contact Officer:	Caroline Capon Corporate Finance Team Leader caroline.capon@west-lindsey.gov.uk
Purpose / Summary:	To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2018/19 accounts. For the External Auditor to explain the process of the External Audit of the Statement of Accounts and approach to the Value for Money Audit 2018/19.

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (as included at Appendix 1)
2. To consider and make comment on the pension assumptions (as included at Appendix 2)
3. To consider and make comment on the risk assessment (at Appendix 3).
4. To approve the proposed materiality levels as included at section 5 including the revisions detailed at 5.6.
5. To consider and make comment on the key closedown dates at Section 7.6.
6. To accept the main accounting changes for 2018/19 and onwards as shown at section 3.

7. To note and receive the External Audit information contained within this report. (Appendix 4).

IMPLICATIONS

Legal: The External Audit element of the report is in accordance with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015

Financial : FIN/214/19/SL

None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2018/19. The levels of materiality set will have minimal impact.

The additional costs associated with the delivery of the Statement of Accounts by the statutory deadline are met from existing budgets.

The annual audit fee 2018/19 and any additional work required to address significant risk within the Value for Money Audit will be met from the approved budget.

Staffing: Additional temporary staffing resources have been appointed for the process period, in addition, overtime hours are likely to be worked by some members of the Finance Team to ensure the Statutory deadline is met.

Equality and Diversity including Human Rights :

None arising as a result of this report.

Risk Assessment :

There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses wildly inaccurate assumptions. An assessment of all risks is attached at Appendix 3.

Climate Related Risks and Opportunities :

None arising as a result of this report.

Title and Location of any Background Papers used in the preparation of this report:

CIPFA Code of Practice on Local Authority Accounting 2018/19 Accounts

CIPFA Guidance Notes for Practitioners 2018/19 Accounts

Both documents are held at the Guildhall

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**n/a**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

1. Background

1.1 The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 May and an Audited Statement of Accounts by 31 July annually.

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2018/19 (the Code).

1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial positon, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.

1.4 This report is asking for Members to review a number of matters such as accounting policies, materiality and actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2018/19.

1.5 External Audit – 2018/19 Audit Planning

The Accounts and Audit Regulations 2015 require local authorities to approve and publish their Statement of Accounts by 31 May and the Audited Statements by 31 July respectively.

The External Audit Annual Audit Plan is attached at Appendix 4 explains the process of the external audit of the Statement of Accounts and their approach to the Value for Money audit 2018/19.

The Auditor will ultimately give his opinion on whether the Statement of Accounts is compliant with statutory requirements and that they have been prepared in accordance with proper accounting practices, and that adequate arrangements are in place to achieve Value for Money in the use of resources.

The audit will take a risk based approach, which will be reassessed throughout the process.

The report will be presented by Michael Norman, Mazars.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2018/19 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Additional guidance on the principles of revenue recognition (Section 2.1 – Concepts).	Finance Team to review the accounts and they are already compliant with this requirement.	Finance team have reviewed the accounts and they are already compliant with this requirement.
A completely revised section 2.7 Revenue from Contracts with Service Recipients following the adoption of IFRS15 Revenue from Contracts with Customers.	**New note required: *9B Revenue from Contracts with Service Recipients*.** Requirement to disclose revenue from exchange transactions with customers. It is only applied to service recipients that have contracted with the Council to obtain goods or services from the Council's normal operating activities.	The statement of accounts have been updated to reflect the new disclosure requirements. The new note 9b Revenue from Service Recipients has been added to the accounts.
Amendments to section 3.4 Presentation of Financial Statements to reflect the disclosure requirements under IAS7 Statement of Cashflows.	Finance Team to review changes and ensure all information is in line with The Code.	There are only minor changes to these sections and the changes will be reviewed as part of the production of the Statement of Accounts.
Augmented section 3.4 and section 5.2 to clarify the reporting requirements for debtors and creditors following the removal of the disclosure requirements for the analysis of debtors and creditors across public sector organisations.	Amendment to Note 18 Debtors and Note 20 Creditors to remove the categories: *Central Government Bodies* *Other Local Authorities* Non Exchange transactions have been removed from this note and a new note: *Debtors for Local Taxation* is to be established.	Under 3.4.2.63 of the CIPFA Code of Practice, The Council has discretion on the disaggregation of Debtors/Creditors Notes. For Transparency we have opted to retain the Central Government Bodies and Other Local Authorities categories in both of these notes and this will aid completion of Whole of Government Accounts

	Due to the code changes the Debtors and Debtors for Local Taxation will need to be restated in the accounts for comparative purposes. There will be no change for the Creditors note	Both of the Debtors notes have been restated for 2017/18 in preparation for the year end and added in to 2018/19 Draft Statement of Accounts
Amendments to section 3.4 to clarify the segmental reporting arrangements under the Code	Finance Team to review changes and ensure all information is in line with The Code.	There are only minor changes to these sections and the changes will be reviewed as part of the production of the Statement of Accounts.
Amendments to the new section 5.2 of the Code to introduce the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS9.	All Financial Instruments, Treasury and Non-Treasury will be assessed for expected credit loss (12mths or Lifetime basis).	Accounting Treatment Confirmed. Accounting Policies Amended. Statement of Accounts updated for new disclosures and amended note 17 and note 34.
A fully revised chapter 7 Financial Instruments to reflect the Code's adoption of IFRS9 Financial Instruments. There have also been consequential amendments to section 3.4 to reflect the amendments to the Comprehensive Income and Expenditure Statement as a result of adopting this standard.	The classification of Financial Instruments as either Fair Value through Profit or Loss, Amortised Cost or the Fair Value through Other Comprehensive Income: All Financial Instruments, Treasury and Non-Treasury will be assessed for expected credit loss (12mths or Lifetime basis).	Management have approved the classification of Financial Instruments Accounting Treatment Confirmed. Accounting Policies Amended. Statement of Accounts updated for new disclosures and amended note 17 and note 34.
Amendments to section 8.1 Creditors to remove the requirement to disclose the analysis of creditors across public sector bodies – this has been replaced in section 8.1 with a reminder of the reporting requirements for these balances in 3.4.2.63	There will be no change to the Creditors note	Under 3.4.2.63 of the CIPFA Code of Practice, The Council has discretion on the disaggregation of Debtors/Creditors Notes. For Transparency we have opted to retain the Central Government Bodies and Other Local Authorities categories in both of these

		notes and this will aid completion of Whole of Government Accounts

3. Accounting Policies

3.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.

3.2 Members should note only material accounting policies will be included within the Statement of Accounts.

3.3 The following changes of accounting policies have been made since the production of the 2017/18 financial statements:

Major Change

- ***x) Financial Instruments: Assets***

The Accounting policy has been amended to reflect the introduction of the accounting standard IFRS9: Financial Instruments

The revised accounting policy highlights the classification of Financial Instruments as either Fair Value through Profit or Loss, Amortised Cost or the Fair Value through Other Comprehensive Income (FVOCI):

- Fair Value Through Profit and Loss: CCLA Property Fund
- Amortised Cost: Money Market Funds (MMF), Deposits, Call Accounts
- FVOCI: There are no Instruments in this category.

All Financial Instruments, Treasury and Non-Treasury will be assessed for expected credit loss (12mths or Lifetime basis).

Minor Changes

- ***xi Government Grants and Contributions. Amendment of Community Infrastructure Levy (CIL)***

CIL was adopted by West Lindsey District Council 13/11/2017 for implementation 22/01/2018, the accounting policy has been updated to reflect that West Lindsey District Council both charges and collects the Levy.

- **Inclusion of Borrowing in the following Accounting Policies**
    - ***ii) Accruals of Income and Expenditure***
    - ***X) Financial Instruments: Financial Liabilities***

  Prior to 2018/19 the Council was a debt free Local Authority. In 2018/19 the Council as at 13/02/2019 has three Loans from the PWLB totalling £11m. The policies have therefore been updated to reflect this change in circumstance.

- ***xii Inventories and Long Term Contracts***

  Accounting policy extended to detail that the cost of inventories is assigned using the weighted average costing formula.

- **xiii Council Tax and NNDR**
  Additional paragraph in the Code Guidance in relation to Debtors. Where debtor balances for Council Tax and NNDR are identified as impaired, the asset is written down and a charge made to Collection Fund.

4. Actuarial Report and Assumptions

4.1 The Councils pension scheme is administered by Lincolnshire County Council with pension contributions included in the county wide pension fund.

4.2 The County Council uses Hymans as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.

4.3 The actuary also does a formal valuation of the pension fund every three years, with 2016 being the year of the latest valuation which relates to the financial years 2017/18 to 2019/20. The purpose of the review is to:

- calculate the Councils funding position within the fund, and

- determine the contributions that the Council will pay from April 2017 to March 2020.

4.4 The pension values are comparatively large when taken in the context of the Councils overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Councils accounts, albeit this is a long term liability which is projected to be funded within 20 years. It is appropriate therefore that they should receive special scrutiny.

4.5 Although the assumptions have been determined by Hymans, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2018/19.

4.6 The actuarial assumptions report as provided by Hymans is included at Appendix 2.

4.7 When reviewing the assumptions used, the Council is required to consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future ie makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

4.8 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary's assumptions are challenged.

4.9 Estimated values of contributions and deficit reduction payments are submitted to the Actuary to take into account when calculating the final IAS19 report for inclusion within the Accounts.

5. Materiality Levels for 2018/19

5.1 Members now approve materiality levels that will be applied as part of the closedown process with the expectation that these will greatly assist with speeding up the closedown process and meeting the statutory deadline of 31 May.

5.2 Information is said to be material if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. There are no set materiality levels and each organisation needs to set levels having regard to the size and any special circumstances of the organisation.

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

5.3 Materiality is an amount that makes a difference to the understanding of the readers of the accounts- an audit never provides 100% assurance- only "reasonable assurance." For instance, if a company has overstated its revenues by £5 million when its total revenues are £4 billion, then this £5 million is considered 'immaterial.' However, if the company's total revenues are only £50 million, then this £5 million overstatement would be considered 'Material."

5.4 External Audit have set a materiality level for the Council of £889,000 for 2018/19 and amounts less than £27,000 are considered trivial (i.e. not significant).

5.5 In order to meet the very tight statutory deadline there is a fine balance to strike between having absolute accuracy and accepting that there may be minor adjustments to make as part of the audit which would be included in the ISA260 Audit Report. Overall, it would be worth accepting the risk of small under/overspends year on year and possible minor audit adjustments to the accounts since they will not materially affect the Councils overall financial position or the financial statements that will still show “a true and fair view”.

5.6 The following levels of materiality are suggested for particular classes of transactions, account balances or disclosures. They remain at the same level as approved for 2017/18.

1. Disclosure of material items of income and expenditure (Note 5) £750,000 (5% of Net Revenue Stream)
2. Manual Accruals - limit of £2,000
3. Disclosures - £750,000
4. 5% of income for continuing operations
5. Related party transactions £10,000
6. Stocks – anything less than £10,000 is charged to revenue in year
7. Fixed assets (Property, Plant & Equipment) – Major components £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per our policy.

5.7 The Council has a capital de-minimis level of £10k (i.e. all sums below this value are treated as revenue) and it is proposed that this sum remain unchanged.

6. Risk Assessment

6.1 An assessment of the risks associated with closing the Councils accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3.

6.2 Each risk has been scored in terms of the likelihood that the event will happen and the severity of the impact if the event happens. Multiplying these two scores together then gives the calculated risk severity. A traffic light colouring system is used to highlight the level of severity.

6.3 These risks are then scored again after applying any actions to be taken to mitigate the risk.

6.4 A new risk has been added for 2018/19 in relation to Brexit on 29/03/2019. This will potentially impact on valuations of Property, particularly those properties valued on a Direct Replacement Cost (DRC) Basis. To mitigate this risk Finance Officers will work closely with our External Valuers (Wilks, Head and Eve) and seek professional assurance on the valuations provided, whilst also carrying out our own reasonableness tests. Valuation of the Pension Fund could also be affected as fluctuations in equities and so forth is anticipated. We will mitigate this by closing the accounts on the estimate report provided in April 2019. In addition we have requested an additional actual report, which will be provided by 19/05/2019. Should the actual report differ significantly to the estimated report then we will make the necessary adjustments to the accounts prior to publication on 31 May 2019.

6.5 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only three risks having an amber rating and no risks identified as being high (red).

7.0 Key Closedown Timetable

7.1 In order to achieve the earlier closedown for the 2018/19 accounts, officers have been working hard over the last few years to reduce the length of time to achieve tasks and also to bring forward the deadlines.

7.2 Tasks and work practices have been reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently.

7.3 Last year the Statement of Accounts was published on the Council website on 31 May 2018. This forward planning means that we are in a good position for delivering by the deadline going forward.

7.4 A detailed timetable is produced (with some 300+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Council's External Auditors.

7.5 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.

7.6 The following table shows those key tasks and dates for the 2018/19 closedown process.

	Key Dates 2018/19
Planning and Preparation	1/11/2018 – 31/12/2018
External Audit Liaison Meeting	01/11/2018
Balance Sheet Review	31/01/2019
Finance Team Closedown Briefing	11/01/2019
Budget Managers Briefings/Training	30/01/2019

Interim Audit	04/02/2019
Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	12/03/2019
Narrative Report draft	30/04/2019
Close the period 12	01/04/2019
Accruals/Prepayments input to system	05/04/2019
All Accounts Closed	30/04/2019
Out-turn position report to CP&R	13/05/2019
Balance Sheet and CIES completed	08/05/2019
Statement of Accounts completed	23/05/2019
Quality review of Statement of Accounts	24/05/2019
Authorised for Issue by S151 Officer	31/05/2019
Send SoA to Auditors and publish on website	31/05/2019
Commence External Audit of Accounts (3 weeks)	27/05/2019
G&A Approval of Unaudited Statement of Accounts	18/06/2019
WGA (subject to date of issue)	14/06/2019
G&A Approval of SoA and AGS	24/07/2019
Publish SoA on website and issue notice	31/07/2019

8. Accounting Changes 2018/19

8.1 There have been no changes to the coding structure in 2018/19 and therefore no restatements of the main statement of accounts are required.

8.2 There are two major accounting change that will affect the 2018/19 Statement of Accounts and onwards.

1) IFRS9: Financial Instruments

Revision of the accounting policy to highlight the classification of Financial Instruments as either Fair Value through Profit or Loss, Amortised Cost or the Fair Value through Other Comprehensive Income:

- **Fair Value Through Profit and Loss: Property Fund**
- **Amortised Cost:** MMF, Deposits, Call Accounts

- **FVOCI:** There are no Instruments categorised through the FVOCI.

All Financial Instruments, Treasury and Non-Treasury will be assessed for expected credit loss (12mths or Lifetime basis).

2) IFRS 15 Revenue from Contracts with Customers

Inclusion of a new note (9B Revenue from Contracts with Service Recipients) to the statement of accounts.

This will apply to services such as Green Waste Collection, Trade Waste, Bulky Waste Collection, Pre-App planning advice, Commercial Building Control, Trinity Arts, Room Hire, Burial Services and will apply in future to cremation services.

9.0 2018/19 Statutory Deadline (Accounts Published 31 May 2019 and Audited by 31 July 2019)

9.1 Due to the statutory deadlines for the 2018/19 Statement of Accounts, it will no longer be possible to report to the Governance and Audit Committee prior to authorisation for issue of the unaudited statements by the Executive Director of Resources (Chief Finance Officer S151). They will however, be presented to Members of the Governance and Audit Committee at its meeting in June.