



**Governance and Audit
Committee**

Tuesday 10 March 2020

Subject: Accounts Closedown 2019/20 - Accounting Matters

Report by:

Executive Director of Resources

Contact Officer:

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Purpose / Summary:

To review and approve the accounting policies, actuary assumptions and materiality levels that will be used for the preparation of the 2019/20 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 2019/20.

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.
5. To consider and make comment on the key closedown dates at Section 7.6.

6. To accept the main accounting changes for 2019/20 and onwards as shown at section 3.

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/152/20/TJB

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 2019/20. 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 2019/20 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

Data Protection Implications :

None arising as a result of this report

Climate Related Risks and Opportunities:

None arising as a result of this report

Section 17 Crime and Disorder Considerations:

None arising from this report

Health Implications:

None arising from this report

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

CIPFA Code of Practice on Local Authority Accounting 2019/20 Accounts

CIPFA Guidance Notes for Practitioners 2019/20 Accounts

Both documents are held at the Guildhall

Risk Assessment :

There is a risk of material errors should incorrect accounting policies be applied or if the actuarial assumptions are proved to be materially different to actuals. An assessment of all risks is attached at Appendix 3.

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

x

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 2019/20 (the Code).
- 1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial position, 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 2019/20.
- 1.5 External Audit – 2019/20 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 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.

- 1.6 The National Audit Officer is currently consulting on the proposed New Code of Audit Practice, although this will not impact until 2020/21, it may impact on how future audits are undertaken, the timetable and fees.

2. Changes to the Code of Practice

- 2.1 The following changes to the Code are effective for the 2019/20 and onwards financial statements:

Code Change	Impact on WLDC	Progress
<p>Explanation of Code Approach (Module 1) Augments the description of adaptations and interpretations of standards, explains the code process for identifying statutory adjustments and confirms the relevance of application guidance within standards</p>	<p>No impact, the Council understands the Code standards and relevance of application guidance within standards</p>	<p>Fully compliant</p>
<p>Update to reflect 2018 IASB Conceptual Framework Module 2 Section A Now reflects improvements and updates in relation to:</p> <ul style="list-style-type: none"> • the objectives of the financial statements • qualitative characteristics of useful financial information • definitions of assets, liabilities, income and expenses • the recognition process and criteria and new provisions on derecognition • measurement bases. 	<p>No impact. The Council understands the improvements and updates stated and the financial accounts and working papers already reflect these updates.</p>	<p>Fully compliant</p>
<p>Closure of Carbon Reduction Commitment Scheme References to this discontinued scheme have been removed from Module 2 Section D on landfill allowances and other trading</p>	<p>Not Applicable for West Lindsey District Council</p>	<p>No action required</p>
<p>Apprenticeship levy A new Section K on the accounting treatment for the apprenticeship levy has been added to Module 2</p>	<p>Payments received in the Councils digital apprenticeship service (DAS) account are considered to be a government grant for accounting purposes as resources are transferred to the authority in return for compliance with certain conditions. The code therefore requires income to be</p>	<p>Finance Team to Liaise with HR to obtain information from the DAS to enable us to process an accounting adjustment for the expense of training provided as part of the apprentice scheme and offset this with a</p>

	<p>recognised in the accordance with the code. The income should be recognised when the levy funded training expense is incurred. The expense for levy funded training is not a cash transaction for the authority but again needs to be recognised when incurred.</p>	<p>corresponding grant (the levy utilised)</p>
<p>Prepayment features with negative compensation</p> <p>Module 7 has been updated to reflect amendments to IFRS 9</p>	<p>The Council conducted a full review of IFRS 9 on implementation in 2018/19 accounts. The amendment in 2019/20 relating to prepayment features with negative compensation does not apply to West Lindsey as we do not have any financial instruments with this feature</p>	<p>No impact</p>
<p>Lender option borrower option clauses</p> <p>Module 7 has been updated to clarify the interpretation for contracts with these clauses</p>	<p>The most common type would be where a liability is derecognised at a gain or loss upon an early repayment of a loan, the code generally requires that this is posted in full to the surplus or deficit on the provision of services, however if repayment is due to loan restructuring but broadly on the same terms then the change would be accounted for as a modification to the existing liabilities</p>	<p>No impact</p>
<p>Group accounts scope clarification</p> <p>Module 9 includes scope clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> introduced by the Annual Improvements to IFRSs 2014 to 2016 cycle</p>	<p>The Council's Group interests include Surestaff (Lincs) Ltd and WLDC Staffing Services Ltd. Neither are held for sale or discontinued for the 2019/20 accounts</p>	<p>No impact</p>

- 2.2 In 2020/21 there will be significant accounting changes to IFRS 16 Leases. Under the existing standard, lessees account for lease transactions as either operating or finance leases depending on certain tests and rules, this results in either all or nothing being recognised on the balance sheet. Under the new IFRS 16 all leases will need to be accounted for on the balance sheet as at 31/03/2021.
- 2.3 No restatement will be required for the 2019/20 accounts but the Council will need to convert every operating lease to a finance lease unless it is short term (<365 days) or low value (the Council's de-minimis is £10,000 for items added to the balance sheet and this will be applied to the new IRFS 16)
- 2.4 The Council has been preparing for these changes for the last two years, we have assessed every lease using a model which external audit has been provided with in the last two financial years audit papers. Each year we review all contracts for embedded leases and the finance business partners liaise with services for any new leases. We will have assessed all operating leases and finance leases by the end of March 2020.

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 2018/19 financial statements:

Major Changes

There are no major changes from 2018/19 accounting policies

Minor Changes

There are 3 minor changes to highlight from last year:

1) Amendment of Revenue from contracts with service recipients - ii Accruals of Income and Expenditure.

The accounting policy has been updated to reflect IFRS 15 Revenue from Contracts with Customers to state when revenue from contracts with service recipients, whether for services or the provision of goods, is recognised.

2) Amendment of Expected Credit Loss Model - x Financial Instruments

The accounting policy has been updated to state that only lifetime losses are recognised for trade receivables (debtors) held by the authority and not on other financial assets.

3) Local Government Pension Scheme - viii Employee Benefits

Updated the Link for Lincolnshire County Council Website – the new link takes the reader to West Yorkshire Pension Fund website from Lincolnshire County Council website.

4. Actuarial Report and Assumptions

- 4.1 The Council's 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 triennial valuation of the pension fund, and this will reflect a 2019/20 valuation which will be concluded 31 March 2020. The accounting balance sheet position as at 31 March 2020, and the projected charge to the Profit and Loss (P&L) for 2020/21 are therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which we based on a roll forward from the 2016 formal valuation. The step change can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020

The purpose of the formal actuarial valuation is to:

- calculate the Councils funding position within the fund, and
 - determine the contributions that the Council will pay from April 2020 to March 2023.
- 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 2019/20.

- 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 which 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.
- 4.10 The 2019 funding valuation liability positions do not include any estimate allowance for the McCloud Judgement (Public Service pensions age discrimination cases) due to the actuaries being advised by the Scheme Advisory Board to value liabilities at the 31 March 2019, funding valuations in line with current LGPS regulations benefit structure. Therefore the liabilities are not increased as a result of the McCloud Judgement. We have therefore asked that an estimated adjustment is made to the liabilities for McCloud from the 2019 valuation data to ensure this is captured in the 31 March 2020 IAS19 balance sheet figures.
- 4.11 We have also asked for two reports from the Actuary, the first report to be received in April using estimate investment returns to enable us to process the accounting adjustments required within the statutory deadline. The second report will be received at the end of May and will be on Actual Investment returns. If there is a material difference in the two reports then further adjustments to the accounts will be required.

5. Materiality Levels for 2019/20

- 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 £850,000 for 2019/20 and amounts less than £26,000 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 2018/19.

1. Disclosure of material items of income and expenditure (Note 5) £750,000
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 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only two risks having an amber rating and one risk identified as being high (red).
- 6.5 Ensuring adequate skilled resources are in place to deliver to the statutory deadline will include a mixture of solutions, interim agency, additional hours and overtime payments

7. Key Closedown Timetable

- 7.1 Since 2017/18 when the earlier statutory timetable for the publication and audit of the accounts was introduced (31 May from 31 July and 31 July from 30 September) the Finance Team have improved each year in relation to their efficiency in reducing the length of time to achieve 374 tasks, complete 254 audit working papers, and also to meet the statutory deadlines in relation to the production of the Statement of Accounts.
- 7.2 Tasks and work practices continue to be reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently. The training and development of Finance staff helps with resilience and the use of estimates, enables us to complete some tasks prior to the year end.
- 7.3 A detailed timetable is produced 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.
- 7.4 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.
- 7.5 Last year the Statement of Accounts was published on the Council website on 31 May 2019 (the statutory deadline), however the document was ready on 21 May 2019 a reduction of 5 working days on the previous year.

Preparation and forward planning means that we are in a good position for delivering by the deadline going forward.

7.6 The following table shows those key tasks and dates for the 2019/20 closedown process.

	Achieved 2018/19	Key Dates 2019/20
Planning and Preparation	31/12/2018	23/09/2019- 31/12/2019
External Audit Liaison Meeting	01/11/2018	20/11/2019
Balance Sheet Review	28/01/2019	03/01/2020
Finance Team Closedown Briefing	11/01/2019	10/01/2020
Budget Managers Briefings/Training	26/01/2019	28/01/2020
Interim Audit	04/02/2019	03/02/2020
Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	14/03/2019	10/03/2020
Close Period 12	01/04/2019	01/04/2020
Accruals/Prepayments input to system	05/04/2019	06/04/2020
Narrative Report draft	15/5/2019	30/04/2020
All Accounts Closed	30/04/2019	30/04/2020
Out-turn position report to CP&R	13/05/2019	11/05/2020
Balance Sheet and CIES completed	02/05/2020	01/05/2020
Statement of Accounts completed	21/05/2019	20/05/2020
Quality review of Statement of Accounts	21/05/2019	22/05/2020
Authorised for Issue by S151 Officer	30/05/2019	31/05/2020
Send SoA to Auditors and publish on website	31/05/2019	31/05/2020
Commence External Audit of Accounts (3 weeks)	27/05/2019	01/06/2020 TBC
G&A Unaudited Statement of Accounts	18/06/2019	16/06/2020
WGA (subject to date of issue)	13/05/2019	15/06/2020 TBC

G&A Approval of Audited SoA and AGS	24/07/2019	21/07/2020
Publish SoA on website and issue notice	30/07/2019	31/07/2020

8. Accounting Changes 2019/20 and Prior Period Adjustments

8.1 There have been no changes to the coding structure in 2019/20 and therefore no restatements of the main statement of accounts are required in this regard, however;

8.2 There has been a change of name for our clusters which can be seen in the main statements such as the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis. The changes are as follows:

Policy and Resources - Changed in 2019/20 to 'Our Council'
 People - Changed in 2019/20 to 'Our People'
 Places - Changed in 2019/20 to 'Our Place'

All affected statements and notes will have a footnote to explain the change

8.3 There are no major accounting changes that will affect the 2019/20 Statement of Accounts.

8.4 A material prior period adjustment has been made to the Council's 2018/19 published financial statements. The Valuations provided by our external valuers omitted a part of the main council office building thus understating the Council's assets, the Revaluation Reserve and the Capital Adjustment Account. As a consequence the surplus on the Provision of Services was understated and the total expenditure in the Comprehensive Income and Expenditure Statement was overstated.

Under the requirements of the CIPFA code of Practice all adjustments to the Comprehensive Income and Expenditure Statement that relate to asset valuations are reversed out of the Capital Adjustment Account. As such, the correction of this error has no impact on the year-end General Fund Balance, the impact is limited to changing two unusable reserves (Capital Adjustment Account and Revaluation Reserve)

The error was found to affect 2017/18 and 2018/19, however no adjustment has been made for 2017/18 as this was not material

As a result of the discovery of this error, a full review of the valuation of land and buildings including building and land measurement is being carried out and more assets may be identified, this work is currently ongoing.

The Council has thus far restated it's 2018/19 balances as shown in the table below:

	Property Plant and Equipment £'000	Capital Adjustment Account £'000	Revaluation Reserve £'000	General Fund £'000	CIES £'000	MiRs (Unusable Reserves) £'000
Original Statement of Accounts 2018/19	30,975	-12,176	-12,362	-19,682	2,038	17,660
Adjustment	1,045	-196	-849		-1,045	-1,045
Restated Opening Position 2018/19	32,020	-12,372	-13,211	-19,682	993	16,615

9. 2019/20 Statutory Deadline (Accounts Published 31 May 2020 and Audited by 31 July 2020)

- 9.1 Due to the statutory deadlines for the 2019/20 Statement of Accounts, it is not possible to report to the Governance and Audit Committee prior to authorisation for issue of the unaudited statements by the Chief Finance Officer (S151). As per last year, the Accounts will be presented to Members of the Governance and Audit Committee at its meeting in June.