



**Governance and Audit
Committee**

Tuesday, 9 March 2021

Subject: Accounts Closedown 2020/21 Accounting Matters

Report by:	Assistant Director of Finance, Business Support and Property Services
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 in the preparation of the 2020/21 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 2020/21.

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (included at Appendix 1)
2. To scrutinise:
 - pension assumptions (as included at Appendix 2)
 - risk assessment (at Appendix 3)
 - key closedown dates at Section 7.6.
3. To approve the proposed materiality levels as included at section 5.
4. To accept the main accounting changes for 2020/21 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/142/21/CC

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 2020/21. 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 2020/21 is anticipated to be £42,487, the Council had already anticipated a 25% increase in fees due to the additional audit requirements and the impact of the new Audit Code. Assuming no additional work is required then a small budget pressure of £750 is expected.

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 as a result of this report

Health Implications: None arising as a result of this report

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21 Accounts

CIPFA Guidance Notes for Practitioners 2020/21 Accounts

Both documents are held electronically

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.

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

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

Executive Summary

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 30 September annually (revisited for 2020/21 from 31 July previously) as proposed within the Redmond Review Report (an independent review into the oversight of local audit and the transparency of local authority financial reporting). At this time the statutory deadlines may be subject to change due to the ongoing resourcing implications of Covid-19 on the finance team as they were for the 2019/20 accounts (31 July/30 November).

The National Audit Office has introduced a new Code of Audit Practice, effective from 1 April 2020. There are a number of changes to auditing and financial reporting requirements which may have an impact on the amount of audit work required to enable a safe audit opinion on 2021/22 accounts, and to deliver the requirements on the arrangements for securing value for money. The most significant impact being the new requirements in relation to reporting on value for money arrangements.

Whilst the Public Sector Audit Appointments (PSAA) has set our audit fee at £33,420, the additional work required is likely to result in a fee variation of circa 25% bringing the total fees to an anticipated £42,487. The Government has committed to provide £15m of additional funding to local authorities to meet the anticipated rise in audit fees driven by these new requirements of the 2020 Audit Code of Practice.

In producing the Statement of Accounts, the Council follows the CIPFA Code of Practice on Local Authority Accounting 2020/21 (the Code). There has been minimal changes for 2020/21 (see Section 2).

There have been no changes to the accounting policies since the production of the 2019/20 financial statements.

The Actuary of the Pension Fund has changed from Hymans to Barnett Waddingham LLP. The assumptions used by the actuary are included in Appendix 2. At this point in time there are no known proposals in the near future that could impact on these assumptions and it is not recommended that these are challenged.

External Audit have set a materiality level for the Council of £900,000 for 2020/21 and amounts less than £27,000 are considered trivial (i.e. not significant).

An assessment of the risks associated with closing the Council's accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3. After applying the planned mitigation, the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

In 2020/21 the Council's reporting areas under the Council's themes of 'Our People', 'Our Place' and 'Our Council' were restructured to reflect the new management structure. For comparison purposes the figures for 2019/20 have therefore been amended to reflect the new structure. Section 8.1 details the amendment.

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 30 September annually (changed in 2020/21 from 31 July previously)
- 1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2020/21 (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 2020/21.
- 1.5 External Audit – 2020/21 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 30 September respectively. There may be temporary extensions, similar to those provided for 2019/20 accounts (31 July and 30 November respectively) due to the pressures on finance teams due to the additional workloads as a result of the Covid-19 response and reporting requirements.

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 Office has introduced a new New Code of Audit Practice, effective from 1 April 2020. The main changes are:

- Commentary on Value for Money (VfM) arrangement rather than conclusion
 - Financial sustainability – *how the Council plans and manages its resources to ensure it can continue its services*
 - Governance – *how the Council ensure that it makes informed decisions and properly manages its risks*
 - Improving economy, efficiency and effectiveness - *how the Council uses information about costs and performance to improve the way it manages and delivers its services.*

- Quality control of an audit of financial statements (applicable from 2020/21 audits);
- Auditing accounting estimates and related disclosures (applicable from 2020/21 audits);
- Specific considerations – audit of group financial statements (applicable from 2020/21 audits); and
- Leases (applicable from 2021/22 audits).

The additional work required by our external auditors has resulted in a fee variation increase at just over 25%, with total fees anticipated to be £42,487.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2020/21 and future financial statements:

Code Change	Impact on WLDC	Progress
Amendments to implement and emphasise the application of <i>Amendments to IAS 1 and IAS 8: Definition of Material</i> . For example the importance of ensuring that material information is not obscured for users is specified in Section 2.1. Reference to this is also made in Section 4.1 Property, Plant and Equipment, Section 6.4 Post-Employment Benefits,	No impact, the Council understands the Code standards and definition of materiality and the importance of ensuring that material information is not obscured for the reader. Judgement is required regarding the extent of supporting disclosures that are appropriate for a specific item. In particular the materiality of an item in a primary statement	Fully compliant

and Section 7.3 Financial Instruments: Disclosure and Presentation Requirements.	does not include a presumption that all supporting information disclosures specified in the Code for that item are material. This applies for both descriptive and numerical supporting information. Judgement should be based on the needs of users. Additional information may be disclosed where this does not obscure information that is material for the users.	
Implementation of <i>Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement</i> in Section 6.4 Post-Employment Benefits, including reference to materiality requirements and specification of factors to consider in making an initial proxy assessment of quantitative materiality.	The post-employment benefits section of the code has been updated for the amendments to Plan amendment, curtailment or settlement and clarifies that disclosures should not obscure material information	Fully compliant
Reference to arrangements for the application of accounting standards arising as a consequence of the United Kingdom’s withdrawal from the European Union.	No impact the Council follows the CIPFA Code of Practice and associated guidance.	Fully compliant
Legislative amendments including: i) England: The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018 relating to investments in specified pooled investment funds that are measured at fair value through profit or loss (FVPL), and back payments following unequal pay.	Recognition in reserves of fair value gains and losses of pooled investment funds	The Council is aware of this but there is currently a statutory override in place until 2022 The Council has no back payments pending through unequal pay.
Amendment to Section 6.5 Accounting and Reporting by Pensions Funds to align specific investment asset line item descriptions in the net asset statements with the Pensions SORP.	Changes noted	Note 33 Local Government Scheme Assets will be updated with any required changes
Amendments relating to financial instruments:	Fully compliant. i) FVPL for financial instrument are	Fully compliant

<p>i) fair value through profit or loss financial instrument entries are specified as included in the financing and investment income and expenditure line</p> <p>ii) clarification regarding the extent of exemption from impairment allowance treatment relating to some balances with other public sector bodies</p> <p>iii) clarification that the interpretation regarding LOBOs (Lenders Option/Borrowers Option loans) does not relate to compound embedded derivatives if separation of the exempted derivative is not permitted by IFRS 9</p> <p>iv) clarification that the modification of financial liabilities follows the principles specified for modification of financial assets</p> <p>v) Allowance for soft loans to be specified at below zero (i.e. negative) interest rates.</p>	<p>ii) included in the financing and investment income and expenditure line</p> <p>The Council understands the exemption for impairment allowance treatment and applies this. Current practice is compliant</p> <p>iii) The Council has no LOBO's</p> <p>iv) Compliant – any required amendments will be identified and actioned within the working paper, no modifications are anticipated</p> <p>v) The Council has no soft loans</p>	
<p>Other amendments including:</p> <p>i) fees and charges for services under statutory requirements specified to include Housing Revenue Account tenancy rental income</p> <p>ii) references to RICS valuation guidance publications updated</p> <p>iii) signage used at the foot of the Comprehensive Income and Expenditure Statement should be clearly identified</p> <p>iv) Recognition that the presentation of a disclosure of movements in property, plant and equipment for the year may differ from Whole of Government Accounts practices.</p>	<p>i) Not Applicable to the Council, non HRA</p> <p>ii) Compliant</p> <p>iii) Compliant</p> <p>iv) Noted, the Council completes the required analysis for Whole of Government Accounts</p>	

2.2 In 2021/22 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 31/03/2022.

- 2.3 No restatement will be required for the 2020/21 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 IFRS 16 related Leases accounting policy for 2021/22).
- 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 have 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 2021.

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 No changes of accounting policies have been made since the production of the 2019/20 financial statements.

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 Barnett Waddingham LLP 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. The actuary for 2019/20 was Hymans.
- 4.3 The actuary completes a formal valuation of the pension fund every three years, with 2019 being the year of the latest valuation which relates to the financial years 2020/21- 2022/23.

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 Council's overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Council's 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 Barnett Waddingham, 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 2020/21.
 - 4.6 The actuarial assumptions report as provided by Barnett Waddingham 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 i.e. 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.
 - 4.10 The 2020 funding valuation liability positions did not include the changes for the updated IAS19 valuation report following changes to the McCloud case (Public Service pensions age discrimination cases) as the difference was not material. We will therefore seek assurance from Barnett Waddingham that the liabilities for the McCloud Case from the 2020 valuation data is captured in the 31 March 2021 IAS19 balance sheet figures.
 - 4.11 We will also be asking 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 2020/21

- 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 £900,000 for 2020/21 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 2019/20.
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 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 In order to achieve the closedown for the 2020/21 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 12 June 2020, this was well within the revised statutory deadline of 31 July 2020 due the Coronavirus pandemic. The finance team are committed to achieving the statutory deadline as in previous financial years.

- 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 2020/21 closedown process.

	Key Dates 2020/21
Planning and Preparation	01/10/2020 - 31/12/2020
External Audit Liaison Meeting (TBC)	15/12/2020
Balance Sheet Review	03/01/2020
Finance Team Closedown Briefing	08/01/2021
Interim Audit (TBC)	08/02/2021
Budget Managers Briefings/Training	28/01/2021
Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	09/03/2021
Close the period 12	01/04/2021
Accruals/Prepayments input to system	06/04/2021
All Accounts Closed	30/04/2021
Narrative Report draft	30/04/2021
Balance Sheet and CIES completed	03/05/2021
Out-turn position Report to CP&R	17/06/2021
Statement of Accounts completed	21/05/2021
Review of SoA	24/05/2021
Draft SoA for S151 sign off	26/05/2021
Authorised for Issue by S151 Officer	28/05/2021
Send SoA to Auditors	28/05/2021
Audit of Accounts	14/06/2021
WGA (subject to date of issue)	30/06/2021
G&A Approval of SoA and AGS	20/07/2021
Publish SoA on website and issue notice	30/09/2021

8. Accounting Changes 2020/21 and Prior Period Adjustments

- 8.1 In 2020/21 the Council's reporting areas under the Council's Themes of Our People, Our Place and Our Council were restructured to reflect the new management structure. For Comparison purposes the figures for 2019/20 have therefore been amended to reflect the new structure. The notes affected are:

- Comprehensive Income and Expenditure (CIES)

- Expenditure and Funding Analysis (EFA) (Note 7)
- Segmental Income Note (Note 8)
- Expenditure and Income Analysed by Nature (Note 9)

As this is not an error in the accounts, the affected notes will have a footnote to explain the amendment

The impact on the Comprehensive Income and Expenditure is as follows:

	Note	2019/20 Original			2019/20 Adjustment			2019/20 Restated		
		Gross Expend-iture £'000	Gross Income £'000	Net Expend-iture £'000	Gross Expend-iture £'000	Gross Income £'000	Net Expend-iture £'000	Gross Expend-iture £'000	Gross Income £'000	Net Expend-iture £'000
Our People		30,792	(21,302)	9,490	(9,430)	2,045	(7,385)	21,362	-19,257	2,105
Our Place		5,153	(2,827)	2,326	2,489	355	2,844	7,642	-2,472	5,170
Our Council		4,739	(195)	4,544	6,941	(2,400)	4,541	11,680	-2,595	9,085
Cost of Services		40,684	(24,324)	16,360	0	0	0	40,684	(24,324)	16,360

The proposed restatement is pending approval from our External Auditors, Mazars.

8.2 There are no major accounting changes that will affect the 2020/21 Statement of Accounts.

9. Currently the 2020/21 Statutory Deadlines are:

Statement of Accounts published by 31 May 2021

Audited Statement of Accounts published by 30 September 2021

At this time statutory deadlines may be subject to change.