West Lindsey District Council
The Entrepreneurial Council

Governance & Audit Committee	
Date 13/03/2018	

Subject: CLOSURE OF ACCOUNTS 2017/18 – ACCOUNTING MATTERS & EXTERNAL AUDIT PLAN 2017/18

Report by:	Tracey Bircumshaw
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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 2017/18 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 2017/18.

RECOMMENDATION(S):

1. Members are recommended to approve the proposed Accounting Policies (as included at Appendix 1)

2. Members consider and make comment on the pension assumptions (as included at Appendix 2)

3. Members consider and make comment on the risk assessment (at Appendix 3).

4. Members are recommended to approve the proposed materiality levels as included at section 4 including the revisions detailed at 5.7.

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

6. Members should accept the main accounting changes for 2017/18 and onwards as shown at section 8.
7. That members accept that in future years due to the earlier deadline the Unaudited Statement of Accounts will be circulated **after** issue by the S151 Officer.
8. That Members note that accounting policies for group accounting and accounting for Community Infrastructure Levy are now required.
9. That Members 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 Audit Commission Act 1998 and Audit Code of Practice

Financial FIN/108/18: 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 2017/18. 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 2017/18 and any additional work required to address significant risk within the Value for Money Audit will be met from the approved budget.

Staffing: An additional temporary staffing resources has 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 earlier 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: No background papers were used in the preparation of this report.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**x**

Key Decision:

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 (previously 30 June and 30 September respectively) for all the financial statements for the accounts for the previous financial year, these statutory dates are effective for the 2017/18 onwards.

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2017/18 (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 2017/18.

1.5 External Audit – 2017/18 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 (previously 30 June and 30 September) effective from the accounts for the year 2017/18.

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 2017/18.

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 John Cornett, KPMG LLP (UK).

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2017/18 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Amendments to section 2.2 relating to the Community Infrastructure Levy (CIL) and treatment of revenue costs and charges before date of commencement.	WLDC are acting as an agent for the collection of the CIL and will therefore only recognise the administration fee within our Comprehensive Income and Expenditure	Accounting treatment confirmed. Accounting Policies amended. No receipts received to

	Table.	date.
Amendment to section 3.1 to introduce key reporting principles for the Narrative Report.	Narrative Report is reviewed annually to ensure it is compliant with the key reporting principles.	A review of the Narrative Report has been undertaken and the Council do cover the key principles
Updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting	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.
Following the amendments in the Update to 2016/17 Finance Team to review changes and ensure all information is in line with the Code. Only minor changes to these sections and the Code, changes to sections 4.2 (Lease and Lease Type Arrangements), and 7.4 (Financial Instruments – Disclosure and Presentation Requirements)	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.

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 2016/17 financial statements:

- Added at vi Charges to Revenues for Non-Current Assets

  "For loans advances to third parties funded by borrowing the principal repayment on the loan is classed as a capital receipt and is then used as a proxy for MRP and set aside in the Capital Adjustment Account."

  This reflects the Councils MRP policy as included within the Treasury Management Strategy. It applies to loans where the returns are expected to be higher than the revenue costs of the debt and in these cases the principal repayments will be utilised as a proxy for MRP.

- The addition of wording to xi Government Grants and Contributions

  "Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure."

  This is to reflect the material transactions in year. Last year's transactions were not considered to be material and therefore the wording had been removed.

- The addition of the following wording also to xi Government Grants and Contributions:

  "Community Infrastructure Levy

  The policy pertaining to CIL has been developed and agreed by the Central Lincolnshire Joint Committee composed of representatives of North Kesteven, City of Lincoln, West Lindsey District Council and Lincolnshire County Council. The Council 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 collects the levy, which is a planning charge on behalf of the Parish Councils and as such, the income does not belong to West Lindsey District Council and will be held on the Balance Sheet until paid over to the Parish Council."

  This is to reflect the adoption of CIL 13 November 2017 with effect from 22 January 2018.

- The removal of xviv Overheads and Support Services.

  This is to reflect that overheads and support services are not reported to management and do not inform decision making or the financial statements such as the Expenditure and Funding Analysis and Consolidated Income and Expenditure Statement.

- Added a new policy xiv Interests in Companies and Other Entities

  "The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses."

  The addition of the above policy is required in view of the Councils fifty percent ownership of the joint venture company Market Street Renewal Ltd. Should the turnover of Surestaff Ltd/Staffing Services Ltd exceed the Councils materiality level the Council will also be required to include these companies as part of the group accounts.

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 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 Council's 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 right 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 2017/18.

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 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 2017/18

5.1 Members will be aware of the earlier closedown requirement for the closure of the 2017/18 accounts and onwards. 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 new 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 users- 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 2017/18 (2% of gross expenditure) and amounts less than £42,000 are considered trivial (i.e. not significant)

5.5 The financial effect of applying these materiality levels cannot be accurately assessed since some could result in a revenue budget underspend and some could result in a revenue budget overspend. There will be equal and opposite under and over spends in the following financial year.

5.6 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”.

5.7 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 2016/17.

1. Disclosure of material items of income and expenditure (Note 5) £750,000 being 5% of total revenue (reduced from £1m)
2. Manual Accruals - limit of £2,000 (increased from £1,000)
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.

5.8 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 identified a number of risks. The 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 no risks identified as being high (red).

7.0 Key Closedown Timetable

7.1 In order to achieve the earlier closedown for the 2017/18 accounts, officers have been working hard over the last three 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 For the last three years the timetable was revised to bring forward all dates to ensure that we could achieve the 31 May deadline from 2017/18 and onwards. The actual achievement last year was that the deadline was met with the Statement of Accounts being published on the Council website on 31 May 2017. This forward planning means that we are now in a good position for delivering by the deadline going forward.

7.4 A detailed timetable is produced (with some 230+ 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 Councils 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 2017/18 closedown process.

	Key Dates 2017/18
Planning and Preparation	1.11.2017 - 31.12.2017
External Audit Liaison Meeting	31.1.2018
Balance Sheet Review at 30.12.2016	31/01/2018
Finance Team Closedown Briefing	10/01/2018
Interim Audit	25.2.2018
Budget Managers Briefings/Training	01/02/2017

Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	13/03/2018
Narrative Report draft	31/03/2018
Close the period 12	01/04/2018
Accruals/Prepayments input to system	06/04/2018
All Accounts Closed	30/04/2018
Out-turn position report to CP&R	03/05/2018
Balance Sheet and CIES completed	04/05/2018
Statement of Accounts completed	23/05/2018
Quality review of Statement of Accounts	25/05/2018
Authorised for Issue by S151 Officer	31/05/2018
Send SoA to Auditors and publish on website	31/05/2018
Out-turn position Report to CP&R	03/05/2018
Audit of Accounts	23/06/2018
WGA (subject to date of issue)	31/05/2018
G&A Approval of SoA and AGS	24/07/2018
Publish SoA on website and issue notice	31/07/2018

8. Accounting Changes 2017/18

8.1 There are no major accounting changes that will affect the 2017/18 Statement of Accounts and onwards. However there is a minor presentational change of significance to Members. The financial statements last year reported amounts based on the Councils “clusters” which was to enable Councils to demonstrate performance in a way in which they organise themselves and more importantly how they budget against the General Fund to provide services. Members will be aware of more recent changes that now require budget setting and monitoring reporting on the three directorates (People, Places and Policy & Resources). Consequently, those statements that had been reported on a “cluster” basis will now be reported on a “directorate” basis.

9.0 2017/18 Statutory Deadline (moved to 31 May 2018 and Audited by 31 July 2018)

9.1 Due to new statutory deadlines for the 2017/18 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 issued to Members of the Governance and Audit Committee at the earliest opportunity.