

agenda item 3	
AGS/26/19	
Report title: Closure of Accounts 2018/19	
Report to Audit, Governance and Standards Committee	
Report author: Margaret Lee – Executive Director of Corporate and Customer Services	
Date of meeting: 25 March 2019	For: Information
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Divisions affected: All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to provide the Audit, Governance and Standards Committee with an overview of the activities and arrangements in place for closure of the Council's 2018/19 accounts, and for production and approval of the Statement of Accounts.

2. Recommendations

- 2.1 The Committee notes the arrangements in place for closure and approval of the Council's Accounts for 2018/19.

3. Background

- 3.1 The process of closing the Accounts, and of producing the information required to enable the external auditor to give an unqualified opinion on the accounts, is both complex and time constrained.
- 3.2 The Council is statutorily required to compile its annual accounts in compliance with generally accepted accounting practice. It is also required to:
- Present its annual accounts for external audit by **31st May** each year; and
 - Publish its audited accounts by **31st July** each year.

4. Arrangements for closure of the 2018/19 Accounts

- 4.1 There are several key strands of activity necessary to close the accounts:
- Activities necessary to derive the revenue and capital 'provisional outturn' positions for Cabinet Members' portfolios, and to assess the impact of those positions on the Council's reserves, balances and capital financing resources;
 - Technical accounting activity necessary to ensure compliance with generally accepted accounting practice;
 - Activities necessary to produce consolidated Group Accounts (i.e. accounts which consolidate the Council's own position with that of its local authority trading companies).

The following paragraphs provide an overview of these key strands of activity and the deadlines we are working to this year.

Determining the Provisional Outturn position

- 4.2 The activities necessary to determine the revenue and capital outturn positions are primarily focussed on determining whether income and expenditure should be recognised in the accounts for this year, or a later year. This is because the Council is obliged to recognise income and expenditure when it is earned or incurred, regardless of when the cash is received or paid.
- 4.3 Significant input is required from budget holders to complete this activity. Specifically, budget holders are required to identify any:
- Income earned but not received at 31st March 2019;
 - Expenses incurred but not yet paid at 31st March 2019;
 - Any amounts already received/paid that relate to goods or services to be provided or received after 31st March 2019;
 - Any amount that may need to be paid to settle an obligation that exists at 31st March 2019, but the requirement to make this payment is uncertain.

Budget holders are required to submit this information via a Web Based Tool during the period **28th March** to **3rd April**, although the Tool will be available before **28th March**, to enable budget holders to start work on their returns prior to the submission deadline. A series of communications are planned, in the run up

to the **3rd April** deadline, to ensure that budget holders are aware of what is expected from them.

- 4.4 Finance will process budget holder returns, and action any other accounting entries necessary to finalise services' outturn positions, by the end of the subsequent week (i.e. by **12th April**).
- 4.5 During week commencing **15th April**, work will commence on validating the provisional outturn position and on assessing the impact this has on the Council's reserves and balances.

Technical accounting activity

- 4.6 The main closure activities necessary to ensure compliance with generally accepted accounting practice are summarised as follows:
- Account for the consumption, revaluation and acquisition and disposal of the Council's Property, Plant and Equipment assets;
 - Restate payments made under PFI and lease contracts to separate the amounts paid for use of the assets from the amounts related to services provided under these contracts;
 - Account for the Council's share of Collection Fund surpluses / deficits and its share of the end of year balances in respect of Council Tax and Non Domestic Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments.
 - Replace employer's pension contributions with the cost of providing retirement benefits, on the basis of information provided by the Pension Fund Actuary.
- 4.7 Statutory regulations permit / require the effect of these entries to be mitigated, ensuring that none of these adjustments impact on the Council's General Fund balance or other usable reserves.

- 4.8 The majority of this work will be finalised during late April and early May.

Group Accounts

- 4.9 In addition to the activities outlined above, which form the basis of entries within the Council's 'single entity' accounts, the Council is also required to produce 'group accounts'. These consolidate the Council's own accounts with those for ECL Ltd. Transactions between the Council and ECL Ltd are eliminated on consolidation.
- 4.10 The Group Accounts will also be produced in late April and/or early May, dependent on when the accounts for ECL Ltd are available.

5. Arrangements for audit and approval of the Statement of Accounts

- 5.1 The draft Statement of Accounts will be presented to the Audit, Governance and Standards Committee on **3rd June**, for information only. The agenda papers for this meeting will be published by **28th May** (at the latest), which is ahead of the statutory deadline of 31st May for release of the draft Statement of Accounts for external audit and public inspection.
- 5.2 The period for the exercise of public rights will commence on **3rd June** and run for a period of 30 working days. During this period, the public have the right to raise objections, inspect the accounts and question the Local Auditor.
- 5.3 The external audit of the accounts will also commence on **3rd June**, although some interim work has already been undertaken. The Committee will be aware that BDO LLP will be undertaking their first external audit of the Council this year. The Council has already been actively engaging with BDO to prepare for this year's audit, and to assist with familiarisation of the Council's systems and processes; this engagement will be ongoing in the run up to, and duration of, this year's external audit.
- 5.4 The external auditor will report the results of the audit work to the Committee on **29th July**, at which stage the Committee will also be asked to approve the Statement of Accounts for publication. The Committee will be required to consider the external auditor's findings before authorising the accounts for issue.

6. Whole of Government Accounts

- 6.1 The Whole of Government Accounts (WGA) initiative, which has statutory backing, is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. English local authorities are the largest element of this consolidation process. The WGA return is based on, but is separate to, authorities' statutory financial statements.
- 6.2 At the time of writing this report, it is anticipated that the timetable for production and audit of the WGA return will be consistent with the timetable for 2017/18. This being the case, the WGA return will need to be completed by mid-June and audited by the end of August.

7. Other matters

- 7.1 The Council is required to produce its Statement of Accounts in compliance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on European Union adopted International Financial Reporting Standards.

- 7.2 The version of the Code applicable for the 2018/19 financial year incorporates two new International Financial Reporting Standards:
- IFRS 9 Financial Instruments
 - IFRS 15 Revenue from Contracts with Customers

7.3 IFRS 9 will:

- Change the default accounting treatment for investments from one where gains and losses in value are not recognised as income or expenditure until an investment matures or is disposed of, to one where income or expenditure is recognised when fair value gains and losses arise;
- Change the model for impairment loss allowances for financial assets from one based on incurred losses to one based on expected losses;
- Change the basis for accounting for modified loans.

Statutory regulations will enable gains or losses on pooled investment funds carried at 'fair value through profit and loss' to be charged to a reserve used solely for that purpose until 31 March 2023.

- 7.4 IFRS 15 introduces a new model for the recognition of contractual income, based on allocating the overall transaction price for the goods and/or services to be provided against the satisfaction of the various performance obligations in the contract.

- 7.5 Adoption of these standards will be applied retrospectively, but only by restating opening balances for 2018/19. Comparative figures for prior years will continue to be presented according to the Council's previous accounting policies.

8. External Auditor's Audit Plan

- 8.1 The 2018/19 Audit Plan is presented elsewhere on the Agenda and explains the work that BDO LLP plans to perform to provide their opinion on the Council's Financial Statements and its arrangements to secure economy, efficiency and effectiveness.

9. Policy context and Outcomes Framework

- 9.1 The Statement of Accounts for 2018/19 will summarise the financial performance and financial position for the Council for the year ending 31st March 2019. As such, they will provide a financial representation of activities during 2018/19 against the Corporate Plan.

10. Financial Implications

- 10.1 There are no specific financial implications associated with this report.

11. Legal Implications

11.1 There are no legal implications associated with this report.

12. Staffing and other resource implications

12.1 Closure of the accounts is a significant activity that requires substantial input from Finance staff. The Finance team will put interim arrangements in place, if needed, to ensure that there is enough capacity within the team to meet the deadlines for closing this year's accounts.

13. Equality and Diversity implications

13.1 There are no equality and diversity implications associated with this report.

14. List of appendices

14.1 None

15. List of Background Papers

15.1 None