
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	14th DECEMBER 2016	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
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SUBJECT:	AUDIT and ACCOUNTS: FORTHCOMING CHANGES	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 04

1.0 Recommendations

- 1.1 That the report is considered and noted.
- 1.2 That the Council opts into the national procurement framework for the appointment of its External Auditors from the financial year 2018/19 and this is recommended to Full Council on 19th January 2017.

2.0 Purpose of the Report

- 2.1 To provide an update on forthcoming changes to accounts and audit matters that originate from the Local Audit and Accountability Act 2014 (*the Act*). The provisions contained in that Act, as they apply to the Council, were reported to the Committee in September 2014.

3.0 Detail

- 3.1 The Act introduced several new requirements which impacted on the Council. Several of these have now been implemented.
- 3.2 These included, in particular, allowing public meetings to be filmed and recorded, including the use of social media, tighter rules regarding publicity, together with the requirement to hold a local referendum should the level of Council Tax be increased above a certain limit determined by the Government.
- 3.3 The Act also:
 - Abolished the Audit Commission and established new arrangements for the auditing of public bodies, including the local appointment of external auditors.

- Brought forward the dates for preparing, auditing and publishing the Statutory Statement of Accounts.
- Updated the Audit and Account Regulations with on-going developments to ensure that local authority accounts are kept in line with proper accounting practice.

External Auditor Appointments

- 3.4 The Audit Commission was abolished on 31st March 2015 and the responsible body for appointing local government auditors was transferred to the Public Sector Audit Appointments (PSAA) Agency. This was to be a transitional body charged with managing existing contracts until their expiry in 2017.
- 3.5 It was expected that local councils would then become responsible for appointing their auditors. However, it was also envisaged that the date of 2017 would be extended to enable relevant procurement frameworks to be set up and established.
- 3.6 The Council has recently received confirmation from the PSAA that the existing contract with EY has been extended by a year to complete the audit of accounts for the financial year 2017/18. The PSAA have also confirmed that arrangements for a local auditor appointment, as set out in the Act, will apply from the financial year 2018/19 onwards. This appointment for this year must be made by 31st December 2017.
- 3.7 Appointments can be made by the Council, in collaboration with other councils, or the appointment can be made through a “specified appointing person.”

Independent Auditor Panels

- 3.8 If the Council wishes to appoint its own auditor, it would need to establish a local independent Auditor Panel. This Panel would assume the role of an appointed body and be responsible for considering and recommending an external auditor to Full Council. It would also monitor the relationship with the external auditor.
- 3.9 A Panel could be the local Audit or Governance Committee if it can be demonstrated that this Committee is independent for this purpose.
- 3.10 The Act specifies that to demonstrate independence, a Panel must consist of a majority of independent persons and be chaired by an independent person, i.e. not a council Officer, Member or any person connected to them.

Collective Procurement

- 3.11 A council can opt into a sector led collective procurement exercise. In this case, an appointed body, approved by the Government, will procure and monitor auditors nationally, on behalf of all councils who choose to opt in.

- 3.12 The Act requires that any decision to opt-in to collective procurement will need to be taken by Full Council. Council's that opt-in will do so for the duration of the "appointing period" (one to five years). The opportunity to opt-in will only occur at the formal invitation point.
- 3.13 The appointed body will be required to consult on and then set a scale of fees for audit, which opted-in councils will be required to pay. If a council uses the collective procurement option, there is no requirement to set up an Audit Panel.
- 3.14 The Secretary of State for Communities has specified the PSAA as a specified appointing person. Under the Act, the PSAA will be able to undertake a procurement exercise and appoint auditors for those councils opting in. The PSAA is currently developing a national appointment framework and they have issued a prospectus for local councils to consider.
- 3.15 It is considered that a sector wide procurement conducted by the PSAA will produce a more cost effective method of appointing future auditors. The benefits are considered to be as follows:
- Assurance that auditor appointments are completed in a proper and timely manner.
 - The independence of auditors is maintained.
 - More competitive pricing is likely to be achieved.
 - No procurement costs for individual councils.
 - It will save time and resources on setting up and administering Audit Panels.
- 3.16 The Local Government Association is leading on this work and a large number of councils have indicated that they will opt in. Therefore, it is recommended that this is the option that is taken.
- 3.17 Under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a decision to opt-in must be taken by the Full Council. It is planned that the PSAA will commence a formal procurement exercise from June 2017 in order to make appointments by December 2017, which is the statutory deadline.
- 3.18 To meet this timetable, the PSAA have requested that councils opt in by March 2017. To ensure that the Council can participate, if this proposal is accepted by the Committee, it will be referred to Full Council on 19th January 2017.

Accounts and Audit Regulations

- 3.19 The 2011 Regulations set out requirements on financial management, internal control, internal audit, the content of published accounts, together with procedures affecting the accounts and public rights to inspect the accounts.

3.20 Provisions under the Act, which led to the introduction of the updated 2015 Regulations, did not change the underlying principles. However, they set out:

- An earlier timetable for the preparation and publication of the Statutory Statement of Accounts (*still to be implemented*).
- Streamlined the procedures relating to the public's rights to inspect the accounting records and to put objections and questions to the auditor (*already implemented*).

3.21 In addition, central government has acknowledged concerns from finance professionals regarding the growing complexity and length of local authority accounts. Consequently, they have been working with professional bodies to simplify the accounts and make them easier to understand.

Earlier Closure and Publication of the Accounts

3.22 The Regulations will bring forward the existing dates of 30th June (draft accounts submitted for audit) and 30th September (final publication) to 31st May and 31st July respectively. This will apply for the accounts for the financial year 2017/18 onwards.

3.23 Councils were notified of this change in 2014 in order to allow time to make the necessary changes in their processes and external auditor's time to adjust their arrangements accordingly.

3.24 The Council produced its draft accounts for audit shortly after 31st May 2016 (for the financial year 2015/16) and will aim to do this before 31st May 2017 (for the financial year 2016/17) in order to streamline its processes ahead of 2017/18.

3.25 The Council will need to change its Committee timetable to accommodate the earlier dates. This will affect meetings of the Audit Sub-Committee and Finance and Management Committee early in the Civic Year 2018/19.

Content and Format of Statutory Accounting Statements

3.26 Each year the Code of Practice on Local Authority Accounting in the UK (*the Code*) is reviewed by the governing accounting bodies. Generally, some minor amendments and technical changes are made each year to certain disclosures without affecting the underlying principles of the Code.

3.27 The Code for 2016/17 is introducing two more substantial changes to the Accounts which will impact upon for the Statutory Statement for the financial year 2016/17. These are as follows:

Accounting for Highways Network Assets

3.28 The Code will bring about some technical changes to how these assets (highways and carriageways) are accounted and recorded in the Accounts. It is considered that this will not have an impact on the Council.

3.29 However, it is not entirely clear whether the definition of these assets includes public footpaths/bridleways and rights of way, together with unadopted roads. If these are included then the Council will need to identify any such assets under its ownership and account for them in accordance with the Code.

Improving the Presentation of the Financial Statements

3.30 Currently, the Comprehensive Income and Expenditure Statement (CIES) reports the accounting cost of services in a broad way, which groups services under generic categories. This does not generally accord to the way in which councils organise themselves financially to report the cost of services for budgeting and decision-making purposes.

3.31 In addition, the CIES does not easily report the cost of services on a funding basis, i.e. it does not report the cost of services to show how the cost of the Council, excluding accounting adjustments, is funded through Government Grants, Council Tax and Housing Rents.

3.32 Following a period of consultation, the Code will be changed from 2016/17. Consequently, the equivalent income and expenditure statement will report costs in accordance with the Council's own budgeting and reporting arrangements and not on the generally accepted Service Code of Practice.

3.33 A separate Expenditure and Funding Analysis will be required. This should streamline disclosure notes and supporting statements and reconcile the General Fund and HRA position back to the CIES.

3.34 The aim is to improve the format of the main accounting statements so that they are more meaningful to stakeholders and that they can be more easily reconciled to the Council's internal reporting procedures.

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

7.1 The Audit and Accountability Act 2014

<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted/data.htm>