

**AUDIT COMMITTEE
15 MARCH 2016**

IMPACT OF EARLIER ACCOUNTS FILING

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Head of Finance, Andrew Jarrett

Reason for Report: To report on the ramifications of the earlier preparation of, and audit of, the annual statutory financial statements.

RECOMMENDATION(S): That the Report be noted.

Relationship to Corporate Plan: In line with good practice and value for money.

Financial Implications:

Legal Implications: No issues.

Risk Assessment:

1.0 Introduction

1.1 The government wants to receive the financial outturn from Councils before Parliament's summer recess. It has therefore been announced that the accounts by local authorities and unitary authorities for the year ended 31 March 2018, and for subsequent years will need to be approved by **31 May**. The current deadline is 30 June, so this is one month earlier. The NHS is already on this timetable and so we have the opportunity to examine others processes.

1.2 The audit of the financial statements, a statutory requirement that we cannot avoid, will also be brought forward and must now be completed by **31 July** in each year. This will require the auditors to amend their methodology too and will mean that both local authorities and the NHS will have the same accounting and auditing deadlines. It will inevitably place greater demands upon the auditors at key stages during the year.

2.0 Accounting Impact

2.1 The financial statements of the Council embrace four individual sets of accounts:

Capital Programme
General Fund
Housing Revenue Account
Collection Fund – Council Tax / Business Rates

In order to compile these accounts earlier it will be necessary to:

a) Start the accounts preparation process earlier in the year. Finance staff will need to be deployed on the accounts prior to the year end during

February and March to do as much as possible of the accounts and working papers for the auditors in advance. This will necessarily restrict their availability for other projects during this period. Urgent essential key areas such as insurance claims will still be maintained, but monitoring reports will be reduced to verbal updates highlighting only major significant changes that Members should be made aware of. The accounts staff will be asked to refrain from taking significant amounts of annual leave during this important period.

- b) A different approach will need to be made including the use of a lot more estimates in preparing the annual statutory accounts. In the past we have been able to keep the ledger open for a substantial time after 31 March to wait for suppliers invoices to be received. Unfortunately, although more accurate, there is simply not enough time to keep the financial ledger open. (We shall be aiming to produce draft accounts by 15 April). However most orders for goods and services are procured using the purchase order processing system and so as long as services receiving the goods and services deliver those goods before 31 March on our system, the system will automatically accrue for the expenditure. Nevertheless the accounting of some areas of the accounts will be based upon estimates.
- c) It will be essential that the whole organisation supports this activity or there is a risk of failure to produce the accounts without material errors to meet the new deadline.

3.0 **External Auditors Impact**

3.1 It will be important that we work with our auditors to use estimates satisfactorily in the accounts. They will still need to consider the concept of materiality and will qualify the accounts if there is material misstatement contained within them. It is very important therefore that we discuss with our auditors the areas of the accounts where estimates are to be used and how we can ensure that where estimates are used that they are reasonable.

3.2 Where estimates are used they will need to be compared to actual data and subsequently revised year on year if required. We need to ensure they are fit for purpose and reasonable.

3.3 Interim audit work will now become even more important. The auditors themselves will need to perform much more audit work, both in terms of the scope of the work and the amount of the work during the year. In order for us to meet this new remit we may need to modify some of our current accounting arrangements. This is another area where it is very important that we have a proactive dialogue with our auditors so each understands the requirements and time scales of the other going forward.

4.0 **Auditor's Report**

4.1 Members should expect a much longer report. There will be more instances of variation between estimates used and the actual amounts subsequently experienced with more minor variances reported. As long

as we produce the financial statements without **material** misstatement we will continue to receive a clean audit report and a clean bill of health. (A material amount for Mid Devon is approximately £850k). It is important that Members realise that professionally we are still trying to maintain high standards, with accurate numbers, but the accounts and audit report will reflect the increased use of estimates with which to meet the new deadlines. If something is not charged or received in year one it will simply be accounted for in year two. There is no question of a transaction being omitted.

5.0 **Benefits**

5.1 Members can expect to receive the outturn reports for the closing year much quicker. The earlier results can also be fed into the budgeting cycle for the following year with the budgeting process itself starting earlier in the year.

6.0 **Conclusion**

6.1 It can be seen that the new timetable will have impacts on the compilation of the financial statements, the audit of those statements and the subsequent reports that are produced. The NHS has had this modified approach for some years and we can look at them to gain a valuable insight. Members should not be alarmed at the changes and be prepared for a new era of reporting. Indeed Members will need to consider future audit reports in the context of the new tighter deadlines and the fact that these longer, more detailed reports with apparently more errors will be the new norm for all Councils.

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Circulation of the Report: Cllr Peter Hare-Scott and Management Team