

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 25 JULY 2018

Title of report	DELAY IN ISSUING THE FINAL AND AUDITED ANNUAL STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND NARRATIVE REPORT FOR 2017/18
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.ashe@nwleicestershire.gov.uk</p>
Purpose of report	To update members in respect of the delay in issuing the final and audited Statement of Accounts for the 2017/18 year
Reason for Decision	To ensure members of the Committee are aware of the technical issues as to why the final and audited Statement of Accounts will not be published by 31 July 2018
Council Priorities	Value for Money.
Implications:	
Financial/Staff	None.
Link to relevant CAT	None.
Risk Management	As detailed in the report
Equalities Impact Screening	Not required.
Human Rights	None identified.
Transformational Government	Not applicable.
Consultees	None

Background papers	None.
Recommendations	THAT MEMBERS NOTE AND COMMENT ON THE REPORT

1.0 BACKGROUND

- 1.1 The Accounts and Audit Regulations 2015 state that authorities must publish unaudited statements by 31 May of the financial year immediately following the end of the financial year to which the statement of accounts relate.
- 1.2 Authorities must then publish their annual audited statement of accounts along with the auditor's opinion and report no later than 31 July of the financial year immediately following the end of the financial year to which the statement of accounts relate.

2.0 CURRENT POSITION

- 2.1 As part of the audit of the 2016/17 accounts and issued auditor's report, a commitment was made by the former Financial Planning Team Manager and Acting Section 151 Officer (now Head of Finance and Section 151 Officer) to undertake a review of the councils capital position prior to the publication of the 2017/18 draft accounts. The commitment was made in response to there being recurrent issues identified by the external audit team in respect of capital accounting in the audit of the accounts of the 2014/15 – 2016/17 financial years.
- 2.2 Ernst and Young LLP were commissioned via a framework to undertake a high level review of capital accounting in late 2017/18. The review concluded with the identification of a technical error in respect of the council's capital accounting for Housing Revenue Account (HRA) properties and this was communicated to the council's finance team in early June.
- 2.3 The council published its draft statements for 2017/18 on 31 May.
- 2.4 The external audit commenced on 25 June and ran for two weeks. The audit remains only partially completed at this stage due to the identification of the technical error in respect of the council's capital accounting for HRA properties.

3.0 THE ISSUE

- 3.1 In 2007, the Chartered Institute for Public Finance and Accountancy (CIPFA) Code introduced the concept of revaluation accounting in accordance with generally accepted accounting standards.
- 3.2 Under revaluation accounting, unrealised gains on assets are added to a revaluation reserve. The reserve is unusable, as it does not represent cash or cash equivalents (i.e. an asset that can readily be converted into cash within 3 months).
- 3.3 As at 31 March 2018 and as published in the draft 2017/18 Statement of Accounts, the council has a revaluation reserve balance reflecting unrealised gains on all council properties (including HRA and General Fund) of £60m.

- 3.4 The high level review undertaken by Ernst and Young LLP considered the council's position in respect of the valuation of HRA properties during the period of April 2007 and March 2018 and identified that a revaluation reserve balance should not exist for the HRA. This is because the depreciated value of those assets based on their original 2007 value (adjusted for in year changes and capital enhancements) exceeds the current value of the assets based on the valuation at March 2018, meaning that there should not be any unrealised gains reflected in a revaluation reserve.
- 3.5 It is important to note, that at this stage this conclusion reflects the high level value of all HRA assets and that there may well be a legitimate revaluation reserve balance for some assets once the detailed work has been completed.
- 3.6 This position does not affect the Housing Revenue Account (or the General Fund) or the amount of useable reserves we hold. The errors are in relation to the revaluation reserve, which is an "unusable reserve" of unrealised gains and is reflected in our annual accounts in the Balance Sheet, Movement in Reserves Statement and Comprehensive Income and Expenditure Statement.

4.0 CONSEQUENCES OF CURRENT POSITION

- 4.1 Given the materiality of the technical issue, the Head of Finance and Section 151 Officer has proposed to delay the publication of the final and audited accounts due to the time it will take to correct the accounts. This is on the basis that publishing the accounts without the error corrected would not represent a true and fair view of the council's financial position.
- 4.2 The remedial action has an estimated timescale of 2 months and work commenced in mid-June following discussion with the council's external auditors, KPMG.
- 4.3 The work requires reinstatement of the HRA asset register as it existed in 2007 for the council's circa. 4,500 council houses and information concerning their valuations at each year end, depreciated value, level of capital expenditure to be known alongside records of properties that were disposed (i.e. sold under the Right to Buy scheme) and those acquired to the period of March 2018 to be accounted for. The exercise then needs to re-run the accounting transactions for these properties each year between 2007 and 2018 before the accounts can be revised and presented to external audit for inspection.
- 4.4 Should the council have pursued publishing its statements by the statutory deadline without the error corrected, it is highly likely that the external auditors would have given a qualified audit opinion meaning that the accounts do not give a true and fair view. The consequence of this is likely a long-term reputational damage and a long-term impact on our ability to borrow.
- 4.5 There are no penalties for missing the statutory deadline, but likely consequences include reputational issues and an impact on the council's ability to borrow during the time period between statutory deadline and date of actual publication/issue. The council does not have an identified borrowing need during this time period and to mitigate any negative reputational impact, the Head of Finance will publish a statement explaining the issue on our website as detailed in Appendix 1.

5.0 CONCLUSION

- 5.1 The council's external auditors, KPMG, have supported the approach to correcting the error on the basis that this material issue may lead to their issuing of a qualified audit opinion in respect of the council's capital accounting.
- 5.2 The Leader of the council, the Audit and Governance Committee Chair and the portfolio holder for Finance have each been consulted along with members of the Audit and Governance Committee and there is support for delaying the issue of the final accounts whilst these necessary and remedial works are completed.



Finance

Please ask for: Tracy Bingham

Telephone: 01530 454707

Email: tracy.bingham@nwleicestershire.gov.uk

Date: 26 July 2018

AUDITED FINAL STATEMENT OF ACCOUNTS,
ANNUAL GOVERNANCE STATEMENT AND NARRATIVE REPORT
2017/18

North West Leicestershire District Council apologises that the final, audited Statement of Accounts, Annual Governance Statement and Narrative for financial year 2017-18 are not yet available for review.

Technical accounting issues relating to the valuation of Property, identified following the publication of our draft 2017/18 Statement of Accounts have had an impact on the program for the production of the final and audited Statement of Accounts.

We anticipate that the final and audited accounts, along with the Annual Governance Statement and Narrative Report will be published by 28 September 2018.

Tracy Bingham
Head of Finance and Section 151 Officer
North West Leicestershire District Council