CIPFA The Chartered Institute of Public Finance & Accountancy

Streamlining the Accounts: Guidance for Local Authorities

Pre-publication version

Contents

FOREWORD

Local authorities adopted international financial reporting standards (IFRS) in 2010/11. Adoption of IFRS, along with the statutory framework, has ensured local government financial reporting complies with the highest possible global financial reporting standards.

Since that time new standards have come into force and for many authorities this has meant a substantial increase in the amount of information reported. More recently, local authorities in England have delivered on early close.

Yet, despite the quality and timeliness of local government financial reporting, we know that there is work to do to better translate the story of the financial sustainability of individual authorities and to build trust with local stakeholders by giving clear, simple and relevant information.

In this publication we begin the journey of rebuilding that trust, to strike a better balance between compliance with standards and providing clearer, simpler and more transparent information, focusing on things that matter most in a local authority context.

This document provides practical suggestions on how the annual statement of accounts can be 'streamlined'. The aim of streamlining is not simply to reduce the page count but equally to:

- focus on who the principal users of the accounts are and what information they need;
- improve clarity by removing unnecessary levels of detail; and
- focus on the key messages to be communicated to enable users of the accounts to better understand the authority's financial position and performance.

Authorities which have already taken steps to streamline have found that clearer and shorter accounts can be prepared to a high quality with less resource. To enable this, some review of year-end processes may be needed, and additional guidance around process is included in this document.

CIPFA would like to thank volunteers from the Society of London Treasurers, the Society of District Council Treasurers and Grant Thornton who contributed to this publication and also to Peter Worth of Worth Technical Accounting Solutions Ltd who undertook the detailed drafting and chaired the working party of volunteers.

CIPFA is committed to the streamlining journey and this publication is a welcome first step.

Sarah Howard

President, CIPFA

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SECTION ONE: PURPOSE AND SCOPE OF THIS GUIDANCE

Introduction and Background

Local authorities are required to prepare their accounts in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the CIPFA/LASAAC Local Authority Accounting Code (CIPFA/LASAAC) and under the auspices of the Financial Reporting Advisory Board. Since 2010/11 the Code has been based upon EU-adopted IFRS as adapted or interpreted for local government.

The Code forms one part of statutorily defined proper accounting practice, the second element of these practices are those statutory reporting requirements which take the form of Regulations, Determinations and Directions and also specify the Code as proper practice. They take precedence over accounting standards in the Code in the event of conflict. The statutory reporting requirements reflect the political choice to ensure tax raising is not subject to undue volatility. This affects even the smallest local authorities and can potentially make local authority financial statements difficult to interpret if they include too much detail or do not draw attention to key messages about the authority's financial position or financial performance.

The aim of this publication is to supply practical ways of streamlining both financial statements and year-end financial processes by providing a combination of general guidance, case studies and worked examples. These examples are for information only and are designed to illustrate how presentation might be tailored to reflect local context, but should not be treated as either accounting templates or as definitive interpretations of Code requirements. The report is part of a wider streamlining agenda, where early initiatives include:

- Legislative change to streamline local government accounting in relation to the reporting of English pension funds is being considered, and has taken place in Scotland and Wales where the local government pension fund accounts, now reported separately, no longer form part of their administering authorities' financial statements.
- CIPFA/LASAAC and CIPFA continue to work on ensuring that Code provisions are relevant to local authority circumstances. For example, the 2018/19 Code has only included the IFRS 9 disclosure requirements that normally apply to local authority transactions, and the 2017/18 Code moved away from a prescribed listing of accounting policies towards an emphasis on individually tailored policies which better reflect local circumstances.

Scope and Structure

This publication is split into two parts which deal with:

- streamlining the presentation of local authority financial statements by ensuring that local authorities have identified readers' information needs and convey key messages clearly, concisely and efficiently (sections two to five)

- streamlining the accounts closure process to embed a “right first time” culture which focuses on key transactions and balances and avoids unnecessary work (sections six and seven).

Each of these is considered in more detail below.

Chief Finance Officers play a key role in streamlining and in year-end closure generally. It is imperative that they have a thorough understanding of the financial statements and are confident that the accounts are supported by a good audit trail. Section seven of this publication provide specific advice for chief finance officers, and section eight provides an external auditor’s perspective.

Streamlining financial statements

This publication considers three aspects of streamlining the presentation of local authority financial statements

- Using materiality to avoid key messages of the financial statements being obscured by excessive detail – see section two
- Reviewing accounting policies so that only important and relevant information is included – see section three, and
- Considering presentation and layout, to help readers focus on key messages and navigate through the statements – see section four.

The primary focus is on the core financial statements, accounting policies and disclosure notes, however, some suggestions have also been provided with regard to the layout and presentation of the narrative report and annual governance statement.

Streamlining year-end closure

Section five considers how to streamline year-end processes by focusing on what is important, ensuring the project is well planned and well managed, and that wherever possible tasks are completed at an earlier stage.

Section six sets out the characteristics of working papers which support an effective closure process by reducing the risk of error and facilitating both the external audit process and internal review.

How to Use this Publication

This publication covers a wide range of issues relating to streamlining both the financial statements and the accounts closure processes. The objective is to promote good and best practice identified to date but all of these examples should be considered selectively and, if adopted, tailored to individual circumstances. Not all suggestions will be appropriate for every authority and many of them can be developed over time as part of local authorities’ own financial reporting improvement plans.

SECTION TWO: APPLYING MATERIALITY TO IMPROVE THE FOCUS OF THE ACCOUNTS

Introduction – What is Materiality?

An understanding of materiality is crucial to effective streamlining of the financial statements, particularly the recognition that materiality is often as much about what should be left out of the published accounts as it is about what should be included.

Paragraph 2.1.2.11 of the Code defines information as material

"…if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority …"

This means that any consideration of materiality has to be based on a clear view of who the users of the financial statements are, the sort of decisions that they might take and the information they would need to support these decisions (see section four for more details on who local authority primary users are). Particularly for local government, relevant decisions can have political as well as economic dimensions and have a significant impact on local services and communities.

Materiality and Disclosures

Importantly, thought must be given to the information that readers will not need or, particularly, that would detract from the key messages of the accounts if it were included. Paragraph 3.4.2.27 of the Code says:

> *"A local authority need not provide a specific disclosure required by the Code if the information resulting from that disclosure is not material. This is the case even if the section of the Code or IFRS contains a list of specific requirements or describes them as minimum requirements. An authority shall also consider whether to provide additional disclosures when compliance with the specific requirements in another section of the Code or IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the authority's financial position and financial performance."*

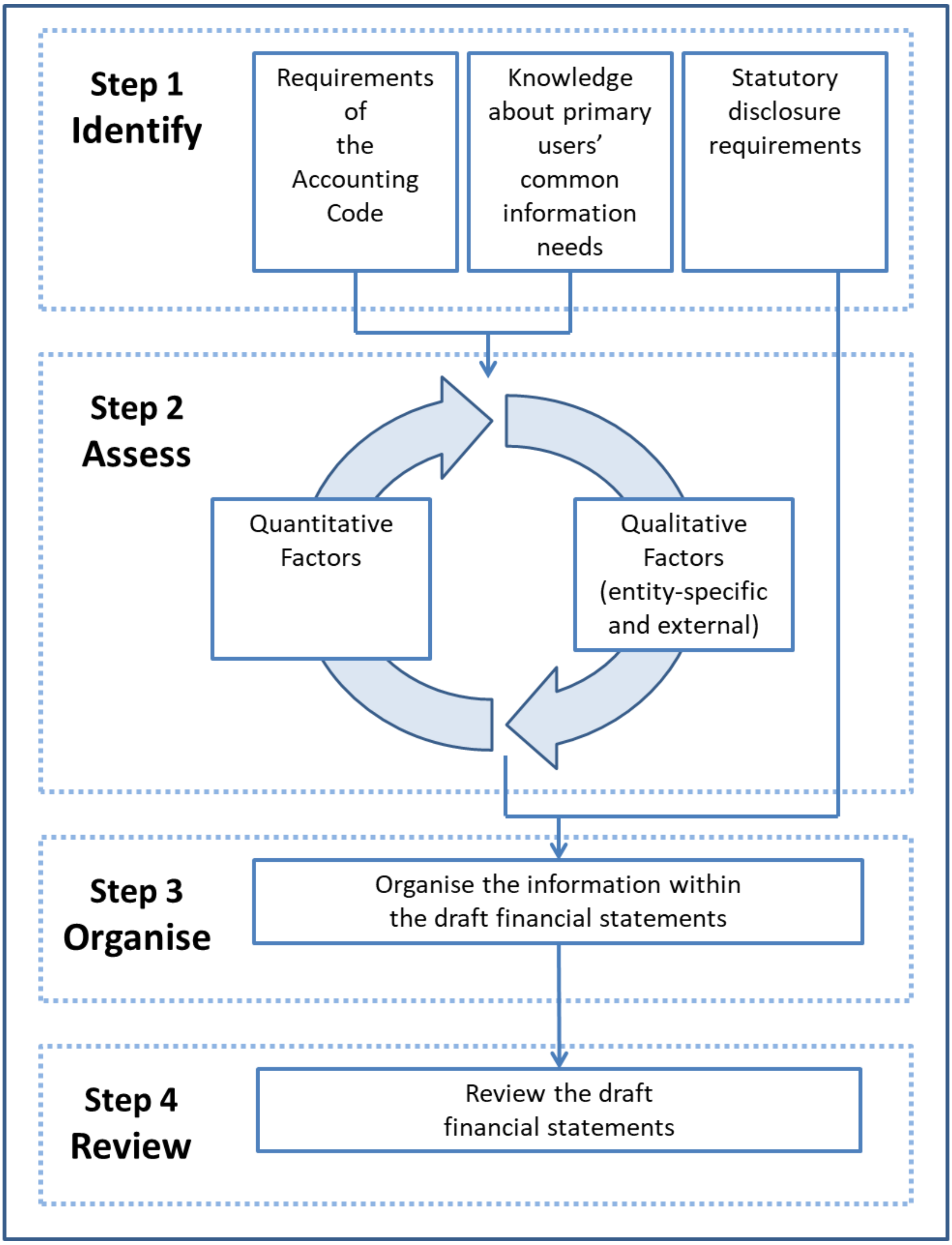
These considerations will be particular to each individual authority.

The considerations could also be particular to each disclosure that the Code requires an authority to make. This is because materiality does not depend solely on the magnitude of an item, but also on the particular context that it might provide for other disclosures in the accounts. For instance, the impairment loss allowance for an authority's deposits with financial institutions might be quantitatively immaterial but its disclosure would demonstrate the extent to which credit risk has been minimised in making the deposits.

However, even though individual cases might require individual judgement, authorities will wish to set up an overall framework to facilitate this work.

The Four Step Approach to Materiality

The International Accounting Standards Board's *Materiality Practice Statement* provides useful guidance on the arrangements that might be put in place. The following diagram summarises the IASB's four step process, adapted for local government circumstances:



The four Steps will involve the following considerations in local government:

Step 1 Identify	The output of this Step is the identification of the potentially material information, through consideration of: • the Code's requirements that are relevant to the authority's transactions, other events and conditions • any additional information necessary to enable users to understand the impact of the authority's transactions, other events and conditions on the financial position, financial performance and cash flows. The disclosures that are mandatory under statute should also be identified.
Step 2 Assess	The output of this Step is a preliminary set of material information. It is not appropriate to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality. Stage 2 therefore involves the interplay of quantitative and qualitative factors to determine whether an item is material: • set a quantitative threshold—a specified measure used in assessing size – above which items will be considered material • consider qualitative factors that would justify lowering the thresholds for particular items - the more significant the qualitative factors, the lower the quantitative thresholds might be (even down to zero). The assessment of quantitative factors involves considering the size of the impact of transactions, other events or conditions against measures of the authority's financial position, financial performance and cash flows. Judgement is needed in identifying the most appropriate measure(s) based on the interests of users, which could include: • % of Surplus or Deficit on the Provision of Services • % of Movement on the General Fund Balance • % of Net Assets • % of Gross Income or Gross Expenditure. Qualitative factors can be specific to an authority or external. Authority-specific considerations could include: • local political interest in particular transactions, other events or conditions • uncommon or non-standard features of the authority's business • unexpected variation or unexpected changes in trends. External considerations relate to the context in which the authority operates. For example, particular interest might currently focus on disclosures that demonstrate the level of an authority's resilience or its commercialisation.

Step 3 Organise	The output of this Step is the draft accounts. The objective in organising the material information is to ensure that: • material items that have different natures or functions are not inappropriately aggregated • material information is not obscured by an excessive amount of immaterial information • items of information are appropriately disclosed separately or aggregated with other information in the primary financial statements, or in the notes. Particular tasks could be to: • emphasise material matters • tailor information to the authority's own circumstances • describe transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements • highlight relationships between different pieces of information • provide information in the most appropriate format (e.g. tables, narrative, etc) • maximise comparability between authorities and across reporting periods • avoid or minimise duplication of information in different parts of the financial statements.
Step 4 Review	The main tasks in the Review Step will be to confirm: • all relevant relationships between different items of information have been identified • the potential for items of information that are individually immaterial to be material when considered together • communication is effective and understandable, and there is no obscuring of material information • the financial statements provide a fair presentation of the authority's financial performance, financial position, and cash flows. An important element of this step could be consideration of whether the Step 2 assessment was effective. As a result of re-performing Step 2, an authority might revise its decisions about information previously identified as material and remove it from the draft accounts.

When applying this guidance, authorities may want or need to set different materiality levels for different aspects of the financial statements, or to reflect levels of assessed risk – generally speaking higher risk items should have lower materiality levels.

Care should also be taken to ensure that:

- materiality levels used for preparing year end accounts are not higher than the materiality levels used to audit them
- creeping materiality is allowed for ie the possibility that a number of errors affecting the same transactions or balances which are below materiality on an individual basis might be material when added together

Understanding Auditor Considerations

ISA (UK) 320 *Materiality in Planning and Performing an Audit* (ISA 320) requires auditors to use the frame of reference provided by the applicable financial reporting framework. Auditors will therefore be applying their concept of materiality in a way which is consistent with the preparers' materiality under the Code. Disagreements should only arise therefore where there are differences of opinion about the influence on the decisions of users of omitting or misstating information.

Under ISA 320, auditors will:

- Determine materiality for the financial statements as a whole – ISA 320 does not require the use of a percentage of a benchmark measure, but its guidance presumes that this will be the case. For public sector entities, the recommended benchmark depends on whether the entity is more focused on programme activities (total cost or net cost) or the custody of public assets (asset balances).
- Auditors are required to consider whether there are specific circumstances of an entity that mean misstatements of particular classes of transactions, account balances or disclosures for by lesser amounts than overall materiality could reasonably be expected to influence the economic decisions of users. Lower materiality levels are to be applied to those particular classes.
- Determine performance materiality – this is a lower figure which the auditor will use to plan their work, reducing to an acceptable level the risk that the audit will fail to detect immaterial misstatements that in aggregate would cause the accounts to be materially misstated.
- Revise materiality for the financial statements as a whole if information is gathered during the audit that would have caused the auditor to have determined a different amount initially.

Overall this means that auditors should be working at a comparable level with the authority in determining when it would material to omit information from the financial statements. However:

- if disclosures are to be omitted on materiality grounds a working paper is still likely to be needed to support that conclusion (eg if an authority with interests in limited companies is not preparing group accounts) which auditors may need to review

- auditors might still need to carry out procedures on apparently immaterial disclosures to confirm that they are not in fact material but misstated.

One of the less well understood aspects of the auditor's work is what they are required to do in relation to omissions which have been confirmed to be immaterial. ISA (UK) 450 *Evaluation of Misstatements Identified During the Audit* confirms that omissions of a disclosure, including inadequate or incomplete disclosures, are to be regarded as misstatements and specifies that:

- the auditor accumulates misstatements identified during the audit, other than those that are clearly trivial - misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances;
- the auditor communicates all misstatements accumulated during the audit with the appropriate level of management. The auditor shall request management to correct those misstatements. This will apply even where there is no expectation that management will add back immaterial disclosures
- once uncorrected misstatements have been accumulated, the auditor determines whether they are material, individually or in aggregate
- the auditor must then communicate the nature of any uncorrected misstatements to those charged with governance, even if these are not material.

SECTION THREE: STREAMLINING ACCOUNTING POLICIES

The Purpose of Accounting Policies

Accounting policies are the specific principles, conventions, rules and practices applied by a local authority in preparing and presenting its financial statements. They should:

- set out the basis for accounting ie confirm (or otherwise) that the authority complies with the Code and relevant statutory reporting requirements
- highlight any changes in accounting policies or other information compared to previous years (substantive changes which affect core statements and disclosure notes only, not just changes to the way accounting policies have been presented)
- set out how any discretion on accounting policy choices permitted by the Code have been exercised
- identify new accounting policies which have been adopted, for example, on the implementation of a new IFRS into the Code.

Accounting policies should focus on recognition, measurement and presentation in line with the requirements of Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) of the Code as follows:

Recognition	The process for recording a transaction in the Balance Sheet or the Comprehensive Income and Expenditure Statement.
Presentation	The process for effectively communicating information on assets, liabilities, income, expenditure and reserves in the financial statements and the disclosures.
Measurement	The quantification in monetary terms of the amounts at which assets, liabilities, income, expenditure and reserves are measured.

Examples of common accounting policies in local authority financial statements are most likely to include:

- depreciation policies and estimated asset lives
- estimation methods used for complex provisions, service contracts, etc
- accounting treatments adopted for the recognition of assets for different types of local authority maintained school

- the valuation basis for material assets not being held at cost
- policies for income recognition
- accounting treatments adopted for reallocation of support services and overheads.

Which accounting policies are significant?

The Code requires that only **significant** accounting policies are disclosed. Paragraph 3.4.2.87 makes clear that authorities should decide for themselves which policies are significant, taking into account

"… *whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position* …".

This means that authorities need to assess significance for their local circumstances, based on who their primary users are deemed to be and the information that will be of most help to them (see section four). The Code assists local authority accounts preparers in their assessment by specifying in paragraph 2.1.2.20 that:

''… *The financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently*…'

The concept of materiality should also be applied - accounting policies are not required for transactions and balances which are not material.

These assessments will also advise decisions about whether policies are best presented in a single consolidated note or can more usefully be hosted in the notes about the particular transactions and/or balances that they relate to.

When drafting the significant accounting policies for inclusion in the financial statements local authority accounts preparers should consider the following:

- the relevance of the policy to the local authority
- how the authority has applied the policy
- which choices have been made and why
- how this impacts on the authority's financial statements.

Case Studies

Case studies relating to the streamlining of accounting policies are set out below.

Case Study 1 – South Gloucestershire Council

The Council's review of their accounting policies in 2016/17 resulted in:

- locally tailored policies reflecting local circumstances;
- clearer disclosures that were easier for readers to understand;
- accounting policies reduced in length from 11 pages down to 6.

Example of a locally tailored accounting policy - City Region Deal

South Gloucestershire Council along with Bristol City, Bath & North East Somerset and North Somerset Councils are part of a business rates pool which aims to treat business rates income growth as a pooled resources across the four unitary councils. To reflect this and the accounting for the collection and distribution of income, the four unitary authorities have agreed a common accounting policy, set out below:

"South Gloucestershire Council is the accountable body for the City Region Deal and its Business Rates Pool (BRP). The Council has applied the principles of IPSAS23 'Revenue from Non-Exchange transactions' (taxes and transfers) in accounting for the transactions and balances relating to the City Region Deal. The Council acts as an agent of the Business Rates Pool (BRP) for the City Region Deal, and so accounts *for cash held on behalf of the pool on its Balance Sheet, with associated creditor balances)."*

Shorter clearer accounting policies – employee benefits

This is a before and after of the Council's accounting policy for employee benefits, showing how a streamlined accounting policy can still explain the recognition, measurement and presentation criteria, but more simply and clearly:

Before	After
Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and non-monetary benefits for current employees which are recognised as an expense in the year in which the employees render services to the Council. The accrual for accumulating compensated absence periods eg holiday pay entitlements earned by employees but not yet taken and therefore carried forward into the next financial year. The accrual is made at the salary rates applicable in the following financial year, that being the rates applicable at the time the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.	Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement. Explains what the transaction is Presentation – where the transaction is reported Measurement – how the transaction has been valued Recognition –when the transaction is accounted for Deleted as not material and excessively detailed

Case study 2 – Southwark Council

The Council simplified its accounting policies and strengthened the presentation of the key aspects of local government accounting by bringing together all the policies for:

- transactions and balances not accounted for on the basis of historic cost;
- statutory over-rides and adjustments.

It then gave these a prominent position in their accounting policies disclosure notes:

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The Statement of Accounts has been prepared using the going concern and accruals bases. The historical cost convention has been applied, modified by the valuation of the following material categories of non-current assets and financial instruments:

Class of Assets	Valuation Basis
Property, Plant and Equipment - Dwellings	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, Plant and Equipment – Land and Buildings	Current value, comprising existing use value Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, Plant and Equipment – Surplus Assets	Fair value
Investment properties	Fair value
Financial Instruments – Available for Sale Assets	Fair value
Pensions Assets	Fair value

2.2 Adjustments between accounting basis and funding basis

The resources available to the council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations). Where the statutory provisions are different from the accruals basis used in the Comprehensive Income and Expenditure Statement, adjustments to the accounting treatment are made in the Movement in Reserves Statement (MiRS) so that usable reserves reflect the funding available at the year-end. Unusable reserves are created to manage the timing differences between the accounting and funding bases. The material adjustments are:

Expense	**Accounting Basis in CIES**	**Funding Basis in MIRS**	**Adjustment Account**
Property, Plant and Equipment	Depreciation and revaluation/ impairment losses	Revenue provision to cover historical cost determined in accordance with 2003 Regulations	Capital Adjustment Account
Intangible Assets	Amortisation and impairment		
Investment Properties	Movement in Fair Value		
Revenue Expenditure Funded from Capital Under Statute	Expenditure incurred in year		
Capital Grants and Contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital Grants Unapplied Reserve (unapplied at 31 March) Capital Adjustment Account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (Carrying amount) Capital Receipts Reserve (sale proceeds & cost of disposal) Deferred capital receipts Reserve (where sale proceeds not yet received)
Financial instruments	Premiums payable & discounts receivable on early repayment of borrowing in 2017-18. Losses on soft loans and interest receivable on an amortised cost basis.	Deferred debits/credits of premiums/discounts from earlier years Interest due to be received on soft loans in year	Financial Instruments Adjustment Account
Pension Costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions Reserve
Council Tax	Accrued income from 2017-18 bills	Demand on the Collection Fund for 2017-18 plus share of estimated surplus for 2016-17	Collection Fund Adjustment Account
Business rates	Accrued income from 2017-18 bills	Budgeted income receivable from the Collection Fund for 2017-18 plus share of estimated surplus 2016-17	
Holiday Pay	Projected cost of untaken leave entitlements at 31 March 2018	No charge	Accumulated absence adjustment account

SECTION FOUR: STREAMLINING PRESENTATION AND LAYOUT

Introduction

Local authority financial statements are a vital part of the local authority's accountability framework. Therefore they need to clearly communicate key messages to users and readers about:

- the financial performance, financial position and cash flows of the authority
- key financial challenges facing the authority
- the effectiveness of financial stewardship of the authority's resources.

Too much information means that it will be difficult for users to assess the above as it will obscure the key messages the relevant information is intended to convey.

Responding to the Needs of Users of Financial Statements

One of the most important aspects of streamlining the financial statements is deciding who the main users and readers are and what key information they need. In the commercial world, companies can assume that they are presenting financial statements to investors, lenders and other creditors and focus on demonstrating how profits have been made and prospects for continued profitability. For local authority financial statements the users of the financial statements are more varied so more detailed consideration of this issue is required.

Section 2.1 of the Code explains that the primary users of local authority financial statements are service recipients (including local residents, workers and employers) and resource providers (including council tax payers). They also include elected representatives insofar as they act on behalf of service recipients and resource providers who cannot require local authorities to disclose the information they need. The characteristics and interests of these individuals will be different at each authority.

Therefore the first steps in effective accounts preparation should be to:

- consider who the financial statements are being prepared for, based on the authority's own experience to date, and what decisions they might take based on the information presented
- set objectives for how this information will meet their needs.

Local authorities can then use these aims and objectives to determine how to present the key messages of the financial statements to those users, by considering:

- what key messages do members and management want or need to convey?
- what will be the most effective way of presenting this information?

Streamlining disclosure notes

The bulk of the accounts consists of disclosure notes. Local authorities tend to follow the layout and ordering in the example financial statements in the *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners* (Code Guidance Notes). The Code's requirements are such that paragraph 3.4.2.85 requires that the notes are presented in a systematic manner (as far as practicable) so there are other options which might include:

- separating the notes into relevant sections. An option for this might be, grouping all the notes supporting the core financial statements ie the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement and the Cash Flow Statement separately etc
- including some or all of the accounting policies and judgements in the disclosure notes they relate to – see example at Appendix B3
- combining disclosure requirements into a single note where possible (ensuring that the resultant note is still able to clearly present the key messages) – see example at Appendices B4 and B5.

Options for improving the presentation of the disclosures include:

- using tables instead of narrative disclosures – see examples at Appendices B2 and B6
- ensuring that disclosure notes do not include more information than the Code requires unless this has been identified as a key information need – see Appendices B7 and B8
- omitting lines in tables when not required (eg for nil disclosures).
- providing an index to disclosure notes.

Reducing the number of disclosure notes can also be achieved by:

- including additional lines in core statements instead of separate disclosure notes, (however, this should be balanced by the impact on the readability/complexity of that statement) -see Case Study 3 below
- combining fair value and financial instrument disclosures (note that this may not cover all of an authority's fair value reporting requirements).

It is important to remember that the example financial statements in the Code Guidance Notes have been produced to illustrate the most common transactions faced by local authorities and deliberately treat all these transactions as material in order to demonstrate how they might be presented. Local authorities should consider these critically against their own circumstances, and are encouraged to use other presentations if these more effectively meet Code requirements for their transactions.

Appendix B provides examples of disclosure notes that are presented in a more streamlined manner, aimed to help key messages be more easily understood by the users.

Clarity

Local authority accounts preparers should always take care to ensure that the resulting disclosure notes, and the published financial statements as a whole, convey key messages effectively. Clarity and accessibility can be improved by:

- using clear and concise language throughout
- considering the order of the various sections in the final document, thinking about how an interested reader might explore the accounts. For example, the reader may just want a snapshot of the Council so looks at the Narrative Report first, then may wish to investigate further so will consider the core statements, further inquiries may lead to consideration of the relevant Note. This might suggest moving the accounting policies, the annual governance statement and the auditor's report to the back of the document - again this is a choice for authorities based on the needs of their users.

Some local authorities have undertaken consultation exercises to consider the best way of structuring and presenting the financial statements and accompanying documents such as the annual governance statement and the narrative report.

How to Improve Presentation and Layout

Although presentation of the core statements and the notes may seem to be a 'nicety' it can be an extremely useful tool in assisting the reader with an understanding of the key messages and enable them to navigate the financial statements more easily. Improving the presentation and layout can take a number of forms, for example:

- making the financial statements more visually attractive with the use of images and colour
- considering the page layout – for example, will landscape format enable the presentation of a note with a number of columns ensure that it is more easily readable - some local authorities use landscape for the full presentation of the financial statements because they are most frequently read online.

Alternatively local authorities may wish to seek the views of communications teams involved to improve the overall appearance of the published financial statements or ensuring that the key messages are communicated.

Practical steps to make the accounts shorter, clearer and more easily accessible to the general reader could include the following:

- applying materiality concepts to the core financial statements disclosure notes (section two refers)
- ensuring that only significant accounting policies are included (see section three)

- removing boiler-plating information in either accounting policies or the notes
- including effective signposting to further information
- using graphics to reinforce key messages and the signposting
- ensuring that the narrative report and annual governance statement also focus on the key messages management need to convey.

Case Studies

Case studies on improving the presentation and layout of the financial statements are set out below.

Case study 1 – Westminster City Council

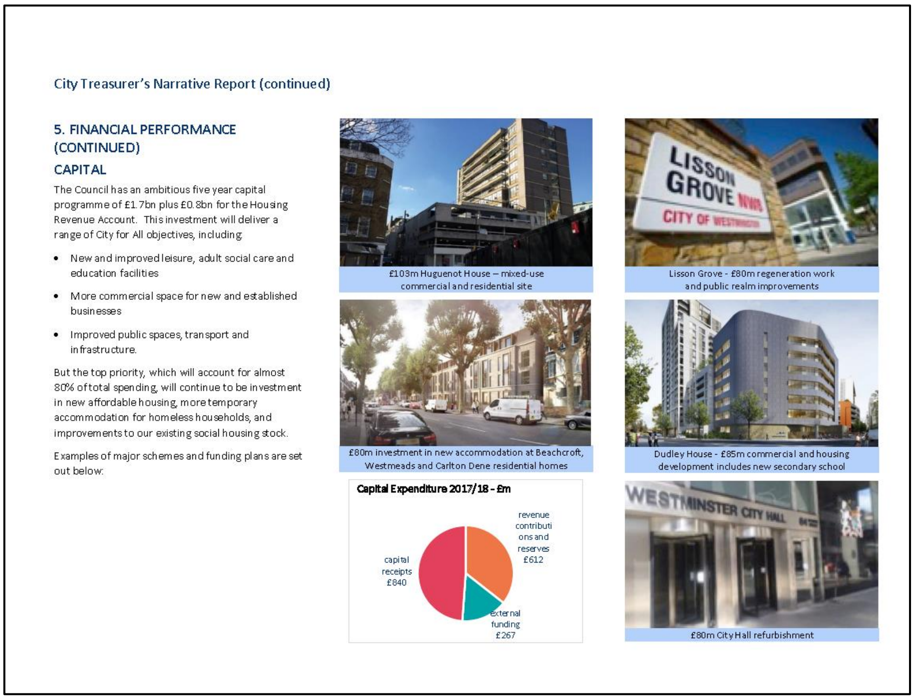
By adopting the principles set out above the Council reduced the length of the accounts from over 230 pages to 180, and reduced the number of disclosure notes from 64 to 42:

- materiality has been used to weed out immaterial disclosures and accounting policies;
- there is a clear focus on the Narrative Report to ensure that only the key messages are reported on both the financial and operational performance of the Council. The aim is to keep the length of the Narrative Report to seven to ten pages. The Council uses graphics to simplify and emphasise the messages;
- where possible accounting policies are incorporated into relevant disclosure notes notes are grouped to support each of the primary statements i.e. Notes supporting the Comprehensive Income and Expenditure Statement, Notes supporting the Balance Sheet, Notes supporting the Movement in Reserves Statement etc
- a three column layout is used as the basis for the whole document which is then used flexibly to either provide 3-column text, one or two columns of text and a table or a whole page table – useful for the property, plant and equipment disclosures
- colour is used throughout to signpost the different sections of the statement of accounts. For example purple for the Narrative Report and Annual Governance Statement, orange for the primary statements, red for the Notes etc.;
- using a columnar format for text also means that lines are shorter, breaking up the text and making narrative easier to read.

The Council uses charts and graphics in the Narrative Report and Annual Governance Statement to emphasise key messages, as shown below:

Extract from narrative report

2015/16	15 pages
2017/18	11 pages


City Treasurer's Narrative Report (continued)

5. FINANCIAL PERFORMANCE (CONTINUED)

CAPITAL

The Council has an ambitious five year capital programme of £1.7bn plus £0.8bn for the Housing Revenue Account. This investment will deliver a range of City for All objectives, including:

- New and improved leisure, adult social care and education facilities
- More commercial space for new and established businesses
- Improved public spaces, transport and infrastructure.

But the top priority, which will account for almost 80% of total spending, will continue to be investment in new affordable housing, more temporary accommodation for homeless households, and improvements to our existing social housing stock.

Examples of major schemes and funding plans are set out below:

£103m Huguenot House – mixed-use commercial and residential site

Lisson Grove - £80m regeneration work and public realm improvements

£80m investment in new accommodation at Beachcroft, Westmeads and Carlton Dene residential homes

Dudley House - £85m commercial and housing development includes new secondary school

Capital Expenditure 2017/18 - £m

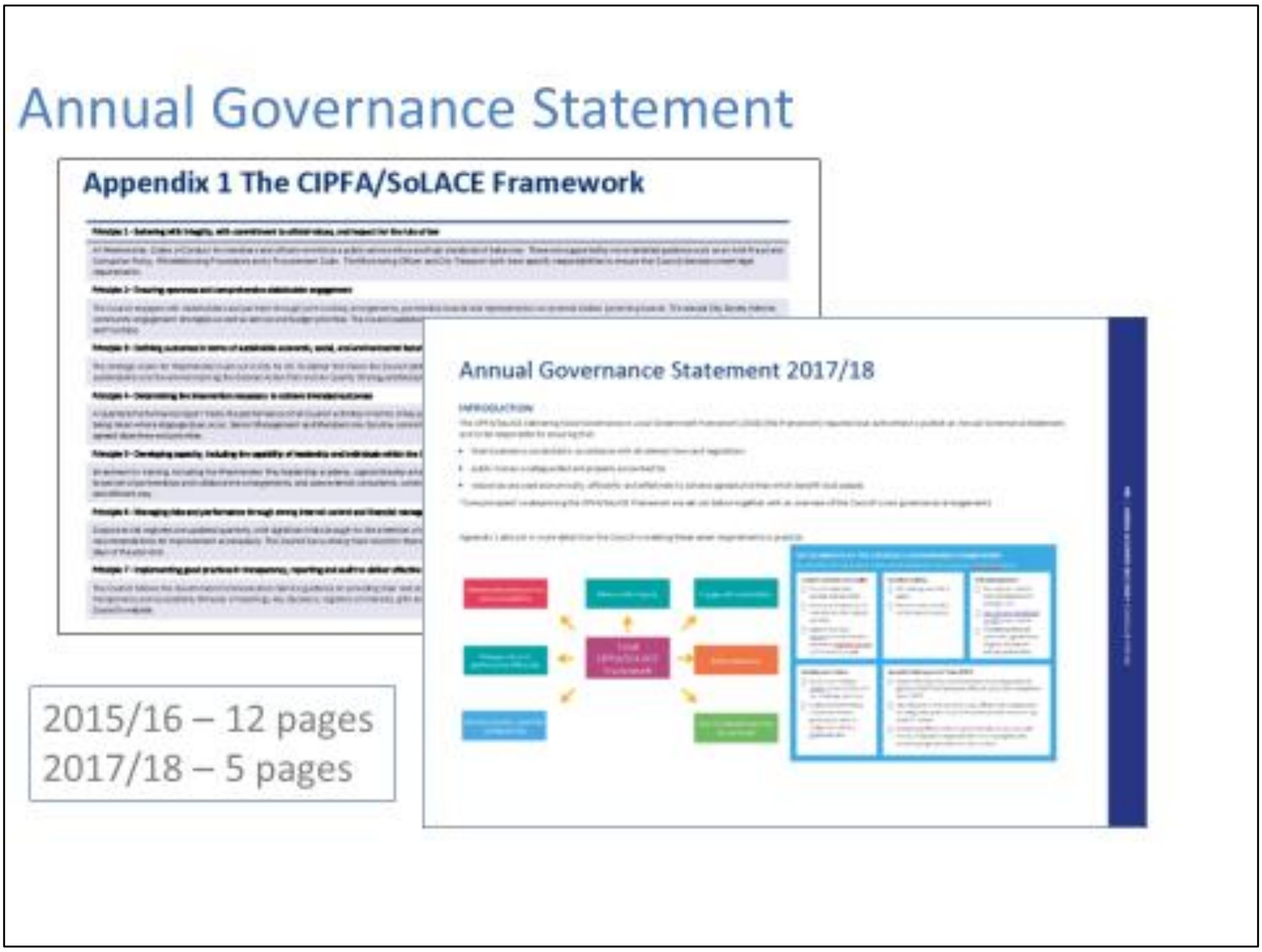
revenue contributions and reserves £612

capital receipts £840

external funding £267

£80m City Hall refurbishment

Extract from the annual governance statement – a four page summary statement was included in the published accounts rather than the full annual governance review, which was separately reported to members with details of the process and links to supporting information



Case study 2 – Lambeth Council

For 2012/13, Lambeth Council carried out an exercise to ensure that the repetition of information in the Statement of Accounts was minimised, and that so far as possible related information was consolidated in one place

For example, the Property, Plant and Equipment note brings together on one page the disclosures required for:

- gross carrying amount and accumulated depreciation;
- reconciliation of carrying amount from 1 April to 31 March (collapsing down the impairment movements to a single line as it would be immaterial to separate them out);
- carrying amount of leased assets (finance leases) and PFI assets.

14a. Property, Plant and Equipment

Balances as at 31 March 2017	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation	2,227,579	1,202,766	109,634	226,946	5,249	35,366	60,649	**3,868,189**
Accumulated Depreciation	(65)	(19,293)	(73,837)	(71,354)	0	(386)	0	**(164,935)**
Carrying Amount	**2,227,514**	**1,183,473**	**35,797**	**155,592**	**5,249**	**34,980**	**60,649**	**3,703,254**

Owned	2,189,050	1,142,154	32,523	143,812	5,072	34,980	60,649	**3,608,240**
PFI / Finance Lease	38,464	41,319	3,274	11,780	177	0	0	**95,014**
Carrying Amount	**2,227,514**	**1,183,473**	**35,797**	**155,592**	**5,249**	**34,980**	**60,649**	**3,703,254**

Movements in Carrying Amount	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
At 1 April 2016	**2,169,373**	**1,163,125**	**19,317**	**148,637**	**11,348**	**55,306**	**24,605**	**3,591,711**
Reclassifications	(1,213)	15,880	1,875	0	(6,273)	2,625	(12,894)	**0**
Additions	102,402	20,607	21,783	16,837	174	0	48,938	**210,741**
Revaluations	(3,261)	2,823	0	0	0	17,111	0	**16,673**
Depreciation	(25,312)	(16,827)	(7,178)	(9,882)	0	(664)	0	**(59,863)**
Impairments	(8,621)	(2,135)	0	0	0	0	0	**(10,756)**
Disposals and Decommissioning	(5,854)	0	0	0	0	(38,505)	0	**(44,359)**
Assets reclassified (to) / from Held for Sale	0	0	0	0	0	(893)	0	**(893)**
At 31 March 2017	**2,227,514**	**1,183,473**	**35,797**	**155,592**	**5,249**	**34,980**	**60,649**	**3,703,254**

A particularly good example of the removal of repeated information is the Statutory Adjustments note and the analysis of Unusable Reserves. Integrating the two notes saved several pages of text by removing the details of transactions for the Unusable Reserves. The accounting policies describe the nature of the material figures in the Statutory Adjustments note, with reconciling items then identified in relevant disclosure notes.

2012/13	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Unusable Reserves £000s	Relevant Unusable Reserve
	Usable Reserves						
Adjustments to Revenue Resources							
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement differ from increases/decreases in revenue for the year calculated in accordance with statutory requirements:							
· Financial instruments	100	499	0	0	0	(599)	Financial Instruments Adjustment Account
· Pensions costs	(4,401)	(18)	0	0	0	4,420	Pensions Reserve
· Council tax	(1,364)	0	0	0	0	1,364	Collection Fund Adjustment Account
· Holiday pay	(74)	(2)	0	0	0	76	Accumulated Absences Account
Cancellation of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure:							
· Amortisation of intangible assets	(316)	(392)	0	0	0	708	Capital Adjustment Account
· Charges for depreciation and impairment	(33,091)	(26,942)	0	0	0	60,033	51,783
· Revenue expenditure funded from capital under statute	(13,763)	(1,129)	0	0	0	14,892	
· Carrying amounts of non-current assets written off on disposal or sale	(8,785)	(10,603)	0	0	0	19,388	
· Capital grant income	54,290	3,797	0	0	(14,849)	(43,238)	
· Movements in the value of investment property	0	0	0	0	0	0	
Transfers between Revenue and Capital Resources							
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve and Deferred Capital Receipts Reserve	14,066	28,250	(42,316)	0	0	0	Deferred Capital Receipts Reserve
Use of capital receipts for revenue purposes:							
· Administrative costs of non-current asset disposals	(268)	(607)	875	0	0	0	
· Payments to the Government housing receipts pool	(144)	0	144	0	0	0	
Posting of HRA resources from revenue to the Major Repairs Reserve	0	36,199	0	(36,199)	0	0	
Statutory revenue provisions for the financing of capital investment	14,081	5,911	0	0	0	(19,992)	Capital Adjustment Account
Capital expenditure financed from revenue balances	9,916	0	0	0	0	(9,916)	(29,908)
Adjustments to Capital Resources							
Repayments of capital loans and mortgages	0	0	(34)	0	0	34	Capital Adjustment Account
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	21,877	0	0	(21,877)	(60,584)
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	27,084	0	(27,084)	
Application of capital grants to finance capital expenditure	0	0	0	0	11,657	(11,657)	
Cash payments in relation to deferred capital receipts	0	0	(243)	0	0	243	Deferred Capital Receipts
Total Adjustments	**30,247**	**34,963**	**(19,697)**	**(9,115)**	**(3,192)**	**(33,205)**	

Unusable Reserve	Opening Balance 1 April 2012 £000	Other Comprehensive Income and Expenditure 2012/13 (CIES) £000	Adjustments between Accounting and Funding Basis 2012/13: Adjustments to Revenue Resources £000	Transfers Between Revenue and Capital Resources £000	Adjustments to Capital Resources £000	Other Movements* £000	Closing Balance 31 March 2013 £000
Revaluation Reserve	**(209,852)**	(12,338)	0	0	0	18,632	**(203,558)**
Financial Instruments Adjustment Account	**3,632**	0	(599)	0	0	0	**3,033**
Pensions Reserve	**557,479**	84,871	4419	0	0	0	**646,769**
Collection Fund Adjustment Account	**(10,031)**	0	1,364	0	0	0	**(8,667)**
Accumulated Absences Account	**4,113**	0	76	0	0	0	**4,189**
Capital Adjustment Account	**(1,309,680)**	0	95,022	(29,908)	(103,872)	(18,632)	**(1,367,072)**
Deferred Capital Receipts	**(739)**	0	0	0	243	51	**(445)**
Total	**(965,078)**	72,533	100,282	(29,908)	(103,629)	51	**(925,751)**

Case study 3 – Chichester District Council

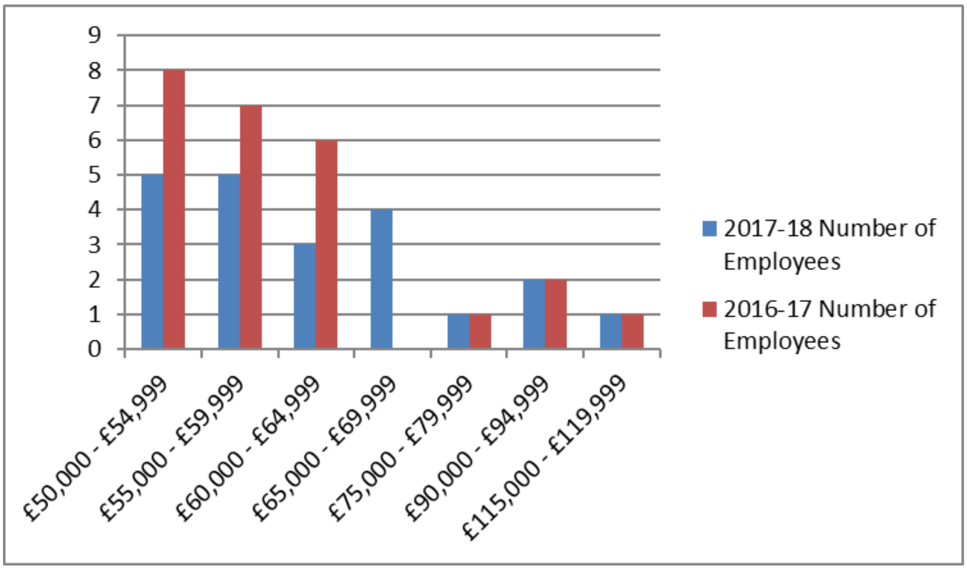
This Council's Statement of Accounts reduced from 90 pages to 69 through a combination of the following:

1. In the Code Guidance Notes the example financial statements follow the Code's minimum line analysis for the Cash Flow Statement which is presented as a short (nine to ten line) core financial statement supported by three to four disclosure notes usually running to two to three pages.
2. An alternative presentation shown below which might be particularly suitable for smaller authorities with relatively few adjustments, is to add lines to the core statement rather than have separate disclosure notes – see cash flow example below.

2016-17 £000		2017-1 £00
(6,411)	Net (surplus) or deficit on the provision of services	(2,824
6,165	Adjustments to net surplus or deficit on the provision of services for non-cash	(1,669
884	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,09
638	**Net Cash flows from Operating Activities**	**(3,399**
	Interest	
8	Interest Paid	
(892)	Interest Received	(1,099
(884)		**(1,094**
	Investing Activities	
4,158	Purchase of property, plant and equipment, investment property and intangible assets	11,10
265,188	Purchase of short-term and long-term investments	219,28
69	Other payments for investing activities	13
(974)	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	(668
(268,119)	Proceeds from short-term and long-term investments	(216,261
(4,461)	Capital Grants	(5,399
(711)	Other receipts from investing activities	(1,033
(4,850)	**Net Cash flows from Investing Activities**	**7,16**
	Financing Activities	
859	Other receipts from financing activities	(2,711
118	Other payments from financing activities	7
977	**Net Cash flows from Financing Activities**	**(2,641**
(4,119)	**Net (increase) / decrease in cash and cash equivalents**	**2**
	Cash and cash equivalents (Note 16)	
6,846	○ at the beginning of the reporting period	10,96
10,965	○ at the end of the reporting period	10,93
(4,119)	**Movement in Cash (increase)/decrease**	**2**

At Chichester, this approach has been applied to all 4 core statements in the accounts.

3. Using graphics for narrative report and disclosure notes eg for senior officer remuneration bandings as shown below:



4. In the Adjustments between accounting and funding basis disclosure note, transactions were summarised by type and a three-column format used to capture both current year and comparative data in a single table.

Adjustments between Accounting Basis and Funding basis

2016-17 General Fund Balance £000	2016-17 Capital Receipts Reserve £000	2016-17 Capital Grants Unapplied £000		2017-18 General Fund Balance £000	2017-18 Capital Receipts Reserve £000	2017-18 Capital Grants Unapplied £000
Adjustments to Revenue Resources						
			Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
(338)	-	-	• Pensions costs (transferred to/ from the Pensions reserve)	(3,008)	-	-
9	-	-	• Financial instruments (transferred to the Financial Instruments adjustments account)	10	-	-
(785)	-	-	• Council Tax and NDR (transfers to/ from the Collection Fund adjustment account)	908	-	-
174	-	-	• Holiday pay (transferred to the Accumulated Absences Reserve)	0	-	-
(1,014)	-	(3,746)	• Reversal of entries included in the Surplus of Deficit on the Provision of Services in relation to capital expenditure (transferred to Capital Adjustment account)	(2,357)	-	(3,907)
(1,954)		(3,746)	Total Adjustments to Revenue Resources	(4,447)	-	(3,907)
Adjustments between Revenue and Capital Resources						
1,451	(1,114)	-	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	1,454	(1,454)	-
(5)	5	-	Administrative costs of non-current asset disposals (funded from a contribution from the Capital Receipts reserve)	(7)	7	-
31	-	-	Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	27	-	-
3,194	-	-	Capital Expenditure financed from revenue (transfer to the Capital Adjustment Account)	10,447	-	-
4,671	(1,109)	0	Total adjustments between Revenue and Capital Resources	11,921	(1,447)	0
Adjustments to Capital Resources						
-	1,298	-	Use of the Capital Receipts Reserve to finance capital expenditure	-	1,396	-
-	-	0	Application of capital grants to finance capital expenditure	-	-	0
-	(12)	-	Cash payments in relation to deferred capital receipts	-	(34)	-
0	1,286	0	Total adjustments to Capital Resources		1,362	0
2,717	**177**	**(3,746)**	**Total Adjustments**	**7,474**	**(85)**	**(3,907)**

5. For property, plant and equipment an eight-column format was used to summarise both years' data in a single table as shown below:

2. Property, Plant and Equipment

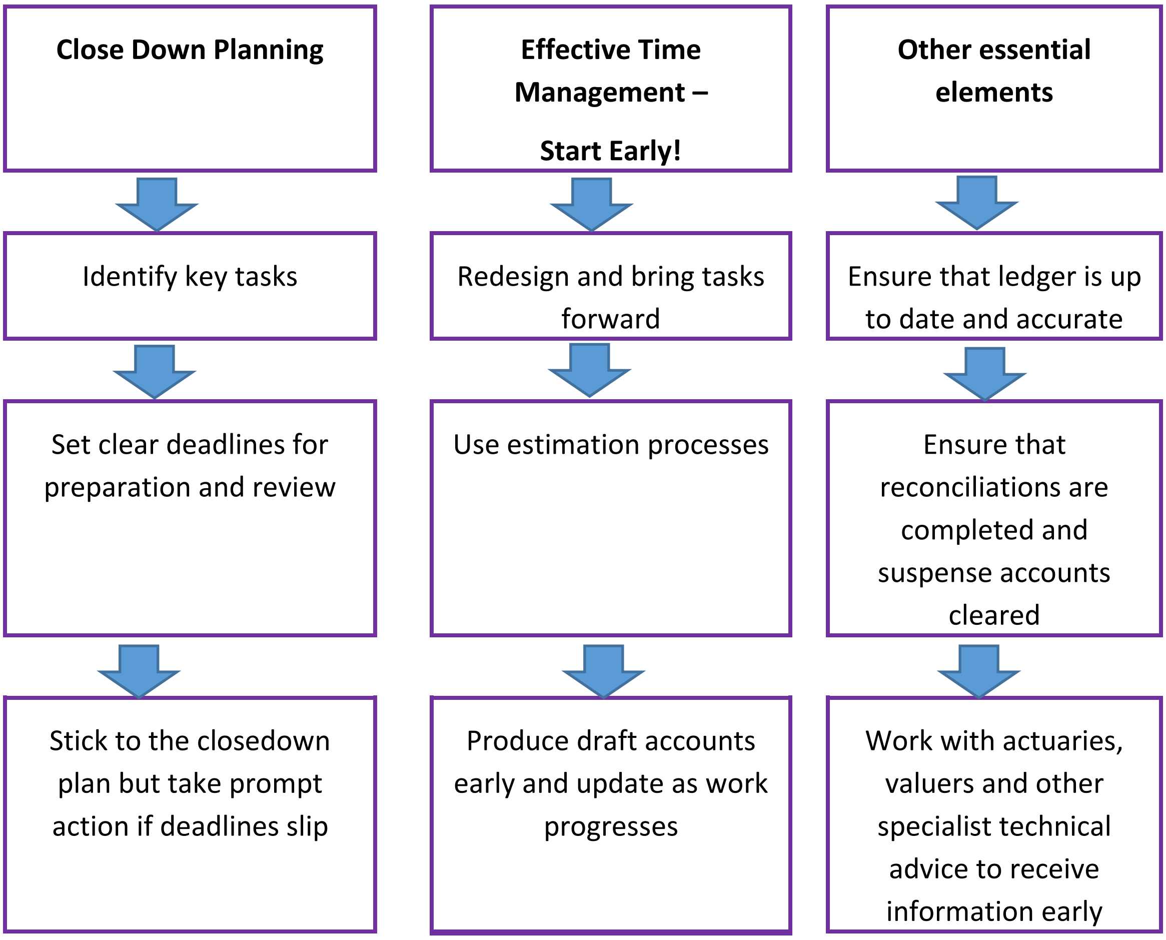
	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Property, Plant & Equipment Under	**Total Property, Plant and Equipment**
Movements in cost or values	£000	£000	£000	£000	£000	£000	£000
1 April 2016	**96,272**	**11,076**	**3,924**	**28**	**4,991**	**147**	**116,438**
Additions	1,784	1,551	0	0	0	421	**3,756**
Revaluations increases / (decreases) recognised in the Revaluation Reserve	7,254	0	0	0	0	0	**7,254**
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,406)	0	0	0	0	0	**(1,406)**
Derecognition – disposals	(5)	(689)	0	0	(100)	0	**(794)**
Other reclassifications – transfers	(230)	0	0	0	230	0	**0**
31 March 2017	**103,669**	**11,938**	**3,924**	**28**	**5,121**	**568**	**125,248**
Additions	908	714	317	0	0	5,750	**7,689**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	4,171	(106)	0	0	(416)	0	**3,649**
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,583)	0	0	0	0	0	**(2,583)**
Derecognition – disposals	0	(459)	0	0	(289)	0	**(748)**
Other reclassifications – transfers	5,879	110	0	0	(230)	(5,989)	**(230)**
31 March 2018	**112,044**	**12,197**	**4,241**	**28**	**4,186**	**329**	**133,025**
Movements in depreciation and impairment							
1 April 2016	**(2,711)**	**(4,973)**	**(2,304)**	**0**	**(10)**	**0**	**(9,998)**
Depreciation charge	(1,064)	(975)	(333)	0	*(5)*	0	**(2,377)**
Depreciation written out to the Revaluation Reserve	1,366	0	6	0	*0*	0	**1,372**
Derecognition – disposals	0	304	0	0	*0*	0	**304**
Reclassifications – transfers	2	0	0	0	*(2)*	0	**0**
At 31 March 2017	**(2,407)**	**(5,644)**	**(2,631)**	**0**	**(17)**	**0**	**(10,699)**
Depreciation charge	(1,338)	(1,043)	(252)	0	(8)	0	**(2,641)**
Depreciation written out to the Revaluation Reserve	1,609	107	0	0	0	0	**1,716**
Derecognition – disposals	0	389	0	0	0	0	**389**
Reclassifications – transfers	0	0	0	0	5	0	**5**
At 31 March 2018	**(2,136)**	**(6,191)**	**(2,883)**	**0**	**(20)**	**0**	**(11,230)**
Net Book Value							
At 31 March 2017	**101,262**	**6,294**	**1,293**	**28**	**5,104**	**568**	**114,549**
At 31 March 2018	**109,908**	**6,006**	**1,358**	**28**	**4,166**	**329**	**121,795**

SECTION FIVE: STREAMLINING THE CLOSURE PROCESS

Introduction

Key elements to streamlining the accounts closure processes are effective planning and project management which focuses on what is important, starting the process early, and redesigning processes so that work can be progressed at an earlier stage, for example through the careful use of estimation. These are summarised in the diagram below:

Diagram 1: Streamlining of the Accounts Closure Process



To reinforce improvement plans, local authorities may find it useful to set clear and achievable objectives relevant to their own specific priorities eg reducing overall closedown time or the number of material errors identified by external audit or achieve successful closedown with fewer resources.

Planning

Having a clear plan and sticking to it is essential. Closedown plans can operate successfully at a number of different levels of detail, ranging from 40 to 50 separate tasks for a small single purpose authority up to over 500 tasks for a large London authority or metropolitan borough. Plans work best when they avoid excessive degrees of detail and focus on "what", "who" and "when", with "how to" guidance for new and inexperienced staff provided separately.

Ordering and allocation of tasks within the closedown plan will need to reflect local inter-dependencies, staff capacity and the expected timing of inputs from third parties such as valuers, actuaries, investment managers and service organisations. Taking positive steps to obtain such information sooner, or to factor in its expected availability, will assist with faster closure.

Closedown planning should then be based on the following principles:

- tasks are identified in terms of not just process but also expected outcomes – see comments on detailed time plan in Appendix C1
- plans need to be comprehensive, with each core statement and every disclosure note linked directly to a specific task in the closedown plan
- targets should be challenging but achievable
- tasks need to be clear and easily understood by the individual and other key stakeholders eg the supervising officer and other responsible officers
- interdependences should be highlighted and subsequent actions understood
- regular monitoring processes should be included.

Closedown plans should clearly set out:

- the tasks to be completed
- names of both preparer and reviewer
- deadline dates for preparation AND review.

Timescales in the plan should be realistic about staff capacity in terms of both skills and time available, and should also allow for:

- quality assurance and review prior to audit
- slippage on individual tasks
- leave, study commitments and other downtime
- staff capacity in terms of both skills and available time the individual responsible for the task will need to have both the capacity and skills to complete it.

Separate guidance should also be available covering:

- how to complete each task, assuming that not everyone will be familiar with the Code or the *Code of Practice on Local Authority Accounting in the United Kingdom - Guidance Notes for Practitioners* (the Code Guidance Notes)
- technical accounting considerations
- arrangements for undertaking reviews and clearing issues identified

- Code disclosure requirements.

The most effective plans are built upon learning the lessons from prior years. This can best be achieved by having review meetings whilst issues are fresh in the mind to make a note of all matters arising to include in next year's plan.

Project management

It is important to ensure that the team that are responsible for accounts close down have sufficient capacity and skills to undertake the tasks. At a minimum this team will require:

- a supervising officer to review and scrutinise the close down project
- a nominated project manager (see also discussion below)
- experienced staff working on closedown tasks.

Some authorities are starting to adopt a "jig-saw" approach, following the structure above but augmenting with:

- most finance staff working on closedown in some capacity;
- service accountants preparing closedown information for their own area;
- consultants or contractors brought in to provide specialist expertise.

Traditionally the chief accountant was responsible for project managing and preparing the financial statements. However these individuals are a scarce resource with a lot of competing demands on their time. What works well at some authorities is the practice of having another person act as operational closedown manager, responsible for:

- day to day delivery of the project;
- monitoring actual versus planned completion dates and chasing up "stragglers";
- identifying and escalating blockages, problems etc.

This project manager can be an existing member of staff or a contractor. Rotating project management responsibility each year helps give staff a better understanding of the closedown process, thus enhancing overall resilience within the team. The chief accountant's role then becomes a combination of project management oversight providing technical advice, quality assurance and review as opposed to direct preparation.

This approach may take a while to bed in, but can deliver significant benefits in terms of job enrichment and individual skill levels as well as faster closure. Some local authorities deliberately rotate closedown tasks on a regular basis, to provide knowledge transfer and improved resilience within small teams. It can also improve the accuracy of basic information if staff more familiar with the relevant service area are responsible for identifying and calculating year-end accruals, provisions or prepayments, identifying grant conditions etc.

Good project management should also ensure that:

- the ledger is closed, with all journal adjustments posted, BEFORE final draft accounts are produced and reviewed

- there is a clear cut-off point for year-end journal postings and amendments processing which allows adequate time for pre-audit checks and review
- there is effective version control over the draft accounts, year-end trial balance reports and key spreadsheets
- wherever possible draft accounts are prepared from the ledger – excessive reliance on spreadsheets should be avoided

Ensuring that the closedown plan gets delivered can best be accomplished by:

- emphasising that faster closedown is a key corporate priority
- offering paid overtime or time off in lieu
- accepting that other work may need to slip or be carried out by more junior staff
- holding weekly meetings to assess progress against plan AND taking prompt action to address problems and delays identified.

Senior management presence at monitoring meetings will reinforce the importance of achieving deadlines as will keeping a copy of the project plan, or tracker, in a prominent place such as the office wall or on a screensaver. An extract from the wall chart used at one unitary council is shown at Appendix C2.

Start Early

Completing as much work as possible before the year-end frees up time at closedown and enables external audit work on these areas to be brought forward. Areas where work can be brought forward include:

- ensuring that the underlying accounting records and feeder systems are complete, up to date and fit for purpose BEFORE closedown commences. In practice this means that all transactions for the year have been posted, any processing backlogs (eg on housing benefits) have been addressed, bank accounts and feeder systems have been reconciled and all holding and suspense accounts have been cleared
- producing an early draft set of accounts which includes comparative data and up to date accounting policies (see section three which sets out how those policies should be tailored to meet individual circumstances). This can be started as soon as the previous year's audit is signed off, leaving ample time for potential changes to be discussed and agreed with the external auditor with adequate time for consideration
- narrative reports can be drafted using quarter three budgets and outturn reports, then updated once core statements have been finalised
- drafting the annual governance statement as early as possible (see Appendix C3 for more detail)

At least one-third of all disclosure notes can be drafted ahead of 31 March, as shown in Appendix C4, using actual transaction data up to period nine, ten, or eleven (where there is evidence that this information is reliable) plus budget estimates or extrapolated figures to cover the rest of the year then updated as more accurate information becomes available. These should, however, be subject to review to ensure that they are sufficiently accurate.

Avoid unnecessary work

This can be accomplished in a number of ways but popular examples include:

- applying concepts of materiality to closedown processes (see below) as well as presentation and disclosure
- reviewing accounting policies to ensure that where possible the estimation process is simplified for example efficiencies may be made in respect of the Council's approach to componentisation and to increase the *de minimis* levels for recognising capital additions (see earlier comments on the use of materiality)
- selecting a ledger coding format which (a) matches the authority's internal financial reporting framework and (b) enables the Comprehensive Income and Expenditure Statement to be readily derived from ledger information without extensive re-analysis Identifying less time-consuming ways of producing essential information eg holiday accruals can be based on the extrapolation of a sample of annual leave records, overhead reallocations can be based on agreed percentages rather than detailed analysis of staff time
- simplifying cost re-allocation practices. The Code no longer requires reallocation of overheads, outsourced or shared service costs across separate lines in the Comprehensive Income and Expenditure Statement (CIES) if this is not how outturn against budget is reported to members during the year. A number of authorities now report corporate or shared service costs as a single line in the CIES.

Materiality and the Accounts Closure Processes

As well as helping to determine which disclosure notes need to be presented in the accounts, concepts of materiality can also be applied to streamline closedown processes. Tasks identified in the closedown plan should aim to avoid spending excessive time and effort on items which are not material and will therefore not be separately disclosed in the accounts. Instead, practitioners should plan to concentrate on high value items, especially where these are inherently complex in nature or involve potentially contentious judgements. At most local authorities these are likely to include pension liabilities, service concessions, capital accounting and capital financing disclosures.

Most authorities will adopt much lower materiality levels at the preparation and closedown stage than they would when considering disclosures. The level chosen will need to have regard to the number of transactions involved, in order to avoid problems with creeping materiality. Levels should also be set low enough so that decisions on streamlining do not need to be revisited if materiality is revised at the final accounts stage.

A worked example of how audit materiality has been used to inform an authority's decisions to streamline both financial statement disclosures and year-end financial processes is provided in Appendix A.

Updating accounting policies

When reviewing or amending accounting policies, accounts preparers should be mindful of the need to keep an adequate audit trail and maintain a record of what has been changed and why. Evidence of senior management and review is essential and many authorities take a separate report to Those Charged with Governance seeking approval of any changes to either accounting policies or the overall format and layout of their financial statements in advance of the year-end. Not only can this expedite the closedown process it also has governance benefits in terms of:

- allowing members to focus on the principles rather than the detail
- ensuring that any complex or contentious issues can be discussed and agreed in advance.

This approach has been adopted by, amongst others, Chichester District Council see report to Corporate Governance and Audit Committee on 29 March 2018 at http://chichester.moderngov.co.uk/documents/s11585/10.0%202017-18%20Accounting%20Policies.pdf

Use of estimation processes

Estimation processes can be used to streamline year-end close in circumstances where actual figures could be established but can more readily be forecast using estimation processes as there may be no significant differences from actual data.

Pre-population Using Projections from Current Year Data

If an authority has eleven months of payroll data it should be easy to predict the last month information with basic information on leavers and joiners.

This approach is commonplace in many commercial organisations, and also in the National Health Service where accounts have to be prepared within three weeks of the year-end. Typically, the accounts are drawn up as at the end of period ten or eleven, then "rolled forward" firstly by extrapolating year to date actuals, and then adjusting for any significant transactions or events.

Other Estimation Processes

Another approach is to use budgetary information as the basis for accounting estimates where it is considered unlikely that it will be materially different from the actual position at the year-end. For example:

- local authorities not experiencing significant housing or business growth could compile the Collection Fund account and disclosure notes from budget reports
- support service recharges and overhead costs could be reallocated based on budget calculations or estimates contained in service level agreements.

Estimation techniques can either be adopted as a general approach towards preparing the whole of the financial statements, or applied selectively to individual transactions and balances. Either will expedite the closedown process, although these techniques tend to work best for balances made up from either:

- a large number of small value transactions which occur regularly (or to a known pattern) throughout the year eg revenues and benefits, accounts payable and payroll systems
- transactions, such as precepts, rents or lease payments, which can be predicted with a high degree of certainty in terms of both value and transaction date.

Regular Close Down

Regular closedown during the year as part of quarterly outturn reporting (sometimes known as “mini-closedown or “hard close”) will also improve the accuracy of year-end accounting estimates as it provides more information about the movement in cash flows and the pattern of transactions during the year.

When adopting or extending the use of the estimation techniques discussed above, local authority accounts preparers should remember to:

- discuss and agree the proposed approach with external audit at an early stage
- undertake sensitivity analysis to assess the impact of the proposed change
- ensure that the rationale for the new approach, calculation methods used and supporting evidence for key variables and assumptions are fully documented
- compare estimations made to actual figures when these subsequently become available to confirm that no material difference exist.

Case Study – pension funds

A number of local authority pension funds have brought forward year-end closure by estimating some or all of their Fund Account transactions and Net Asset Statement balances based on an extrapolation of period 10 or 11 data.

A similar approach could be adopted for:

- HRA income – multiplying the average weekly rent roll x 52 weeks;
- Housing Benefits – by extrapolating year to date claims and payments made;
- The Collection Fund – by basing Council Tax and Business Rate income on 1 April valuation reports and precepts on approved budget reports to members.

SECTION SIX: WORKING PAPERS AND AUDIT TRAIL

Introduction

As accounts production and publication deadlines are brought forward it is increasingly important to ensure that accounts closure working papers are effectively documented. The audit trail is the evidence provided by the authority that enables a reviewer to drill down from the accounts into transactions and balances, and a worked example of the expected audit trail to support a creditors' disclosure note has been provided in Appendix D1.

Streamlining the accounts production process involves reducing not just the time and effort taken to produce the year end statement of accounts but also the time and effort taken to complete the external audit process and process any material adjustments identified. This time will inevitably be reduced at local authorities which can:

- deliver Code-compliant, materially accurate draft accounts
- provide a clear audit trail with comprehensive and understandable working papers
- undertake and evidence pre-audit quality assurance and review.

Fostering a "right first time" approach is key and this is largely driven by the quality of:

- working papers and audit trail
- pre-audit checks and review

External Audit's working paper requirements should be discussed and agreed well in advance and most external audit firms will provide a list of their expected requirements. If adequate working papers are not made available by the agreed date, auditors may be forced to suspend the audit entirely and even if they do decide to persevere, their additional work will lead to increased audit fees and possibly delayed sign off.

Equally as important as the audit are the needs of the chief finance officer and those charged with governance. Both have specific statutory responsibilities in respect of the financial statements:

- the chief finance officer is required by statute to confirm or certify that the statement of accounts presents a true and fair view of the authority's financial position at the year end, and its income and expenditure for the period
- those charged with governance are required to review and approve the accounts.

Both parties should expect the accounts presented to them to be supported by adequate working papers which have been subject to review.

What is a good set of working papers?

Ideally each line of the core financial statements and each disclosure note should be cross-referenced to a working paper linking back to:

- the general ledger or trial balance, there should be a clear understanding of what the working paper is intended to evidence ie the purpose of the paper
- Code financial reporting and disclosure requirements
- relevant journals, feeder system reconciliations or other supporting information – invoices, contracts, valuations etc.

All working papers should clearly record the following:

- who the preparer is and how they can be contacted
- who has reviewed the working paper and what assurance or verification processes have been carried out
- the key issues identified and how these have been resolved
- statement of any judgements made in the paper, eg the principles used in measuring the movement in the impairment of a bad debt provision or the amount to be recognised as a contingent liability
- method of compilation and source documents used.

It is important to remember that:

- copies of spreadsheets, pivot tables, ledger reports and journal postings are unlikely to be sufficient in themselves without some additional explanations about where the information has come from and what the preparer was trying to achieve
- all of the information provided should be internally consistent and agree with what is actually in the accounts submitted for audit
- reconciling items, mispostings and suspense account items should all be resolved and dealt with prior to the external audit.

Common problems with working papers include the following:

- poor version control so working papers are out of date
- working papers not updated for late adjustments
- working papers/supporting evidence is lost, missing or filed in the wrong place
- inconsistent quality of working papers or methods of presenting information
- information provided by spreadsheets are inconsistent with or not reconciled to the final closing trial balance
- trial balance or feeder system reconciliations not printed off or not available
- inconsistencies between working papers, ledger and accounts
- spreadsheets hard coded or linked to information the auditor is unable to access
- no effective review by senior management at pre-audit stage

- papers and review topic are not evidenced.

Using standardised working paper templates and summary sheets cannot guarantee to solve all these problems, but they are a useful way of improving quality, consistency and evidencing pre-audit review. An example of a suite of standard working paper templates used by several local authorities is set out in Appendix D2 (this example is for two disclosures within a local authority pension fund).

Case study – Mersey Waste Disposal Authority

This case study demonstrates how improving closedown processes and the quality of working papers can lead to a quicker, more straightforward audit, with savings in audit fees and less time taken up with audit queries.

Using a two-stage approach, the Director of Finance engaged consultants as follows:

Year 1	Resolve ongoing technical issues – corrected via £12m prior period adjustment
Year 2	• Revised format of Statement of Accounts • Introduced formal closedown plan • Improved closedown and reconciliation processes • Introduced working paper templates and pre-audit review

As a result the authority experienced a much quicker and less time-consuming audit, mainly completed off-site, with:

- no additional audit fees;
- fewer material errors identified;
- deadlines achieved;
- positive feedback from external audit.

Quality assurance and pre-audit review

The first thing any external auditor will do when they receive a draft statement of accounts is to:

- agree comparative figures to last year's accounts
- compare this year's Balance Sheet to the trial balance or ledger
- check additions, casts and cross references
- complete disclosure checklists and carry out consistency checks.

This work will determine how much detailed testing is required and in fact most audit errors are identified at this stage, before any on-site work is even carried out. Effective review at the pre-audit stage can streamline the audit process by reducing both the number of errors identified and the amount of testing carried out.

Pre-audit review should be undertaken at two levels, namely:

- on each individual set of working papers to confirm that the audit trail is clear and Code reporting and disclosure requirements have been complied with
- an overall check on additions, cross-referencing and consistency. This should be completed, or at least reviewed by, the chief finance officer.

An example of the first type of checklist is provided for property, plant and equipment disclosures in Appendix D3. Overall consistency checks should focus on recurring transactions and balances, for example:

- statutory overrides
- capital accounting and financing transactions
- pensions liabilities
- surplus/deficit on the provision of services
- Cash, loans and investment balances.

An example checklist is provided in Appendix D4.

Evidencing significant judgements and complex accounting estimates

The most complex estimates prepared during closedown will often relate to legal claims and equal pay claims, movement in impairment allowances for bad debt, provisions for business rates appeals, service concessions arrangements (PFI/PPP) schemes or provisions for maintenance of closed landfill sites.

Unnecessarily complex calculations, or disagreements with auditors over the calculations made, are probably the single most common cause of delays in both production of the accounts and completion of the audit. This can best be avoided by:

- agreeing the basis of the calculations, key assumptions and proposed methodologies with auditors at an early stage
- documenting the methodology adopted, the assumptions made, and explaining where source information has been obtained from
- using sensitivity analysis to identify which assumptions have most impact on the end result
- selecting appropriate discount factors to reflect the change in value of money over time
- considering the right level of detail – try to avoid unnecessary accuracy
- disclosing key judgements made, and the basis of material accounting estimates, in disclosure notes
- accepting that there will be different possible approaches so calculate worst/best case outcomes and select an option around the mid- point or most likely scenario.

Case study – Closed landfill sites

Waste disposal authorities are required by law[1] to maintain closed landfill sites for up to 40 years. Some key variables, such as the size of each site and the number of years' maintenance remaining, can be ascertained fairly readily, but others are more difficult to predict such as:

- the amount and timing of future expenditure;
- future increases in labour and material costs;
- discount factors to allow for the change in value of money over time.

To estimate their closed landfill site provision, South Gloucestershire Council prepared a matrix of 80 different calculations using various combinations of assumptions which ranged from £1.7m to £3.7m as shown below. The midpoint (median) of £3.1m was then selected for the purposes of the year end accounts.

Results				Provision at different levels of spend £60k to £100k				
	Average £60k-£100k	**Average £70k-£100k**	**Average £80k-£100k**	£60k	£70k	£80k	£90k	£100k
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Minimum	1,711	1,996	2,281	1,711	1,996	2,281	2,566	2,851
Maximum	4,735	4,735	4,735	2,841	3,315	3,788	4,262	4,735
Average	2,946	3,130	3,314	2,209	2,578	2,946	3,314	3,682
Median	2,849	3,086	3,267	2,185	2,549	2,913	3,277	3,642
Suggested provision	2,900	3,100	3,300	2,200	2,600	2,900	3,300	3,700

[1] Under the Controlled Waste (England and Wales) Regulations 2012.

SECTION SEVEN: THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

Introduction – The Statutory Role of the Chief Finance Officer

Chief finance officers (CFOs) have specific statutory responsibilities in respect of the financial statements, and must formally confirm or certify in writing that the statement of accounts presents a true and fair view of the Council's financial position as at the year-end date and of its income and expenditure for the financial year.

Meeting these Responsibilities

When meeting these important statutory responsibilities officers need to take ownership of the statutory statements of accounts. This can be best facilitated by:

- identifying the primary users of the published financial statements (see section four)
- ensuring that the key messages that the accounts need to convey are clear
- giving a strategic steer on the content of the accounts;
- ensuring that the judgements and decisions made during the accounts production process reflect the factors above
- promoting the importance of high quality year-end financial reporting.

CFOs also need to take time to ensure that they understand complex accounting entries and are able to:

- explain these to members and those charged with governance
- justify the approach if challenged by external audit.

If advice is being sought from experts or external advisors, chief finance officers need to understand the nature of this advice, and the context in which it was commissioned and provided. Common reasons for delays in issuing audit opinions are due to:

- local authorities being unable to explain or justify complex accounting entries, estimates or judgements by reference to relevant Code requirements or accounting standards
- independent advice or valuations have been incorrectly scoped, are out of date or do not take account of relevant information
- local authorities not fully understanding or applying incorrectly the advice or information provided by independent experts.

Key closedown tasks for the Chief Finance Officer

In addition to the statutory framework as a key accountability document the CFO will have an essential role in communicating the key messages to the rest of the authority and those charged with governance as well as supervising the work of the accounts closedown, the tasks that will therefore fall to the CFO comprise:

- liaising with members on progress with production and any major matters arising
- liaising with other chief officers to secure their co-operation and ensure that closedown tasks are treated as corporate priorities at the appropriate time
- appointing a supervising officer to manage the operational aspects of the accounts production process
- ensuring the supervising officer will have the necessary technical and management skills
- ensuring that the supervising officer has sufficient resources (staff, accommodation, IT, etc) to complete the operational aspects effectively
- ensuring the supervising officer has sufficient rights of access to information and explanations from other officers of the authority
- setting key target dates and commissioning and approving a detailed closedown plan from the supervising officer
- commissioning progress reports from and meeting with the supervising officer, with sufficient regularity and depth to allow judgements to be made about the need to intervene to resolve critical matters
- setting parameters for matters arising that require exceptional reporting by the supervising officer (eg, disagreements with the external auditor about an accounting policy, significant failure to meet a critical deadline, staff shortages etc)
- ensuring that sufficient satisfactory work has been carried out by internal audit to provide assurance that the output of the financial systems can be relied upon for final accounts purposes
- keeping up to date with technical accounting developments so as to be able to challenge the work of the supervising officer effectively
- ensuring proper arrangements for liaison with external audit.

Appendix E provides an aide-memoir for chief finance officers, summarising key areas where their input and involvement is required. Appendix D4 provides a format for evidencing key checks on year-end financial statements and these or similar checks should be completed (or at least reviewed in detail) by officers at pre-audit stage.

SECTION EIGHT: AN AUDITOR'S VIEW OF STREAMLINING

Introduction

A key facet of producing this guidance has been ensuring the involvement of external audit to ensure that the suggestions will stand up to the scrutiny of external audit colleagues up and down the country. Also it will help shape the guidance into something which will help make future audit cycles a more straightforward process for both local authorities and external audit alike.

In terms of providing some background to the work which has already been done, over 80% of the 326 local authorities across England had their accounts signed off by the 31st of July 2018 deadline, which was an impressive feat for all concerned given the challenges that both sides faced in reaching this deadline. However, there is clear recognition that there is still work which can be done to make the process even smoother for 2018/19, and this guide is designed to help organisations with continuous improvement in this area.

Building successful working relationships

As a way of a brief refresher, there are a number of tenets from an external audit perspective which help to ensure we can make efficient and effective use of our time on site, be it during early testing or the final accounts visit. These include:

- Spending the time to have a full debrief on 2017/18 between key members of the finance team and external audit colleagues ahead of the 2018/19 audit cycle to work out what went well, what could be improved and anything new which could be considered for this year's audit. Even where an audit went well there are always areas to improve for next year to make the process even more streamlined.
- Ensure that early discussions are held between finance and external audit for any new/one-off transactions which are likely to occur during the course of the year, or any changes in key estimates or judgements. This will ensure these conversations have been resolved ahead of year end and prevent critical time being consumed in June and July.
- If you are planning on removing elements from the Accounts then have an early discussion with external audit to ensure they are on board, and so that this doesn't come as a surprise at the start of June. We would encourage accountants to be bold in considering whether disclosures from the previous year still remain relevant – too often they focus on what needs to be added in the current year as opposed to what can be removed from the previous year.
- The above also applies to the implementation of new standards implemented in the Code or other Code requirements – teams should consider and challenge

whether they are affected by the new changes rather than just adopting it and creating more work that isn't needed.

- Focus on making a real success of any early testing visits – in practice treating this like a mini-final accounts audit with the same turnaround time for queries and engagement from both sides will ensure it is taken seriously and adds value.
- Also revisit those areas you considered early last year and see if there are any more you can add this year – this is another area you are unlikely to unearth all possibilities in one year, so this is well worth another review as part of agreeing your closedown timetable.
- Finally, remember to check that any disclosures left out on materiality grounds in previous years remain immaterial for the current accounting period.

Working Papers

In respect of working papers, the particular elements remain key to help support the delivery of early close:

- Working papers and requested data files are ready prior to the commencement of the audit, depending on when this has been agreed with the external audit team.
- To support the above, consider the use of an electronic file sharing platform which will help both sides monitor and manage the process, identifying areas where working papers are late or have not been provided in full.
- Working papers are provided in support of the all of the core Financial Statements and related Notes, along with the narrative elements of the Accounts, such as the Narrative Report or the Annual Governance Statement.
- The individuals responsible for preparing the working papers are identified and notified of the deadlines agreed.
- Appropriate review arrangements are in place by a senior officer to ensure that working papers of adequate quality are available by the agreed date.

All of these relatively simple steps will help make the process feel considerably more straightforward than would be the case otherwise, and helps reduce the amount of time colleagues will need to spend with external audit during this period. This is very much an area where time invested up front will pay off significantly during June and July.

The Audit

During the course of the audit itself, the key factor to a smooth and successful final Accounts visit is a simple one, and that is communication. Clearly as external audit we recognise that this expectation works both ways, so whilst external audit expects the local authority to inform us of any delays with any working papers, it is not unreasonable for external audit to communicate delays from their side, such as a team member being off sick for example. Having regular formal meetings during the process as well will help to identify any delays or issues as they arise, which allows them to be tackled in a timely manner rather than letting them drag on and have a major impact on delivering by the end of July 2019.

In our experience, where early close has been a success there has been one key point of contact from the local authority who provides scrutiny and challenge on the internal delivery of the tasks that members of staff have been allocated as part of the closedown programme. This ensures that they do most of the chasing of outstanding working papers and sample items as opposed to the external auditor, which is a far more comfortable process for all concerned.

Another area which often causes unnecessary issues at the end of the process is the actual task of getting documents signed by the relevant people, which can become a real issue given the conflicting demands senior members of staff will have. Thus it is important that this is built into the closedown timetable, and there are contingency plans in place should, in the worst case scenario, something unexpected happen which requires the signing dates to be changed.

Commentary on Early Accounts Close Down Processes

In terms of the guidance included within this document, as mentioned above there has been involvement by external audit colleagues during its preparation to make sure that it is in line with our requirements for an external audit of a local authority. What this will ensure is that clients can be confident they are not going to face significant challenge from the technical functions within the accounting firms when it comes to reviewing the draft Accounts received at the start of June. As is clear throughout the guidance and the Code, there are a large number of areas which come down to Management making a judgement. Now as long as this judgement is reasonable and there is clear documentation as to how this judgement has been reached, then the level of scope for challenge is limited, and should allow you to approach the final Accounts window with confidence. It is however, worth emphasising that the accounts belong to the local authority and the Section 151 Officer. Auditors are then required to express an opinion on whether they are true and fair. Both sides should keep this at the front of their minds during the course of the audit to make sure they don't lose sight of the end game.

However, as mentioned above, clearly where there are some areas which require the view of external audit before they are in a position to sign off the Accounts, then the sooner this consultation takes place the better. It was technical issues which caused a significant number of the delayed external audit opinions, albeit a number of these were out of the control of the external audit team on the ground or the finance team, which thus highlights the importance of early consultation and discussion in this area to avoid any last minute hitches which could easily have been avoided.

Conclusion

Overall, it is very clearly a two-way process to ensure that the Accounts are signed by the planned deadline for all authorities, and that both sides recognise the importance of their role in making this a success. However, following some of the tips included within this guidance, and ensuring you liaise with your external auditor regularly during the course of the year should help ensure the June and July period is smooth and ensures everyone involved can look forward to a well-earned break!

APPENDIX A: MATERIALITY EXAMPLE

Worked example - XYZ fire authority

The Authority reviewed the users of its financial statements and determined that they primarily refer to the Balance Sheet for high-level information about the assets and liabilities under the Authority's stewardship but have a closer interest in the Authority's funding requirement. It therefore decided to set a higher level materiality of £X for items that would have an effect on the Balance Sheet based on a percentage of net assets.

For items of income and expenditure it calculated a lower figure as a percentage of the gross revenue budget. A materiality level of £Y will be used for income and expenditure items that would impact on the CIES. The assessment was based on the findings from the annual governance review and discussed with the Audit Committee.

Therefore, for the purposes of financial statement disclosures the Authority decided:

- to review the need to include disclosure notes for any items below £X in the Balance Sheet and £Y in the CIES and Cash Flow Statement; and
- individual line items in disclosure notes below £X for the Balance Sheet and £Y for the CIES will be amalgamated.

The Authority then assessed the implications of materiality for planning the closedown work for Balance Sheet and CIES items.

In relation to CIES items Members allowances, exit packages, officer remuneration and related party transactions were identified as sensitive disclosures since they tend to attract the most member and public interest therefore officers plan to ensure that these are accurate to the nearest £.

The Authority then proceeded to consider the implications of the materiality level for the work to be carried out on each item of income and expenditure. Consideration was given to the risk that the omission of transactions or the use of estimation techniques to measure them might result in a material misstatement of the item. Depending on the volume of transactions and the opportunities for reliable estimates to be established, it was decided that:

- no separate closedown tasks would be performed on line items with a value less than £z – eg, for stocks and stores balances the year-end ledger balance would be used – no requirement for year-end stocktake as reliance placed on spot checks carried out throughout the year
- no individual year-end journals would be raised for transactions that are less than:
    - £a – sundry income
    - £b – sundry expenditure
    - £c – payroll costs
    - etc …
- items less than £d would not be capitalised

Arrangements were put in place for the review of materiality levels and de minimis amounts as closedown work proceeds.

The external auditors provided information on their materiality and the Authority is satisfied that its materiality decisions do not need to be re-visited.

The example on the previous page is based on a small single purpose authority. For multi-service authorities, there may be a need for a greater range of materiality levels for different components of income and expenditure and different items in the balance sheet. This will depend on the authority's assessment of control risk and the inherent complexity of the relevant transactions (e.g. PFI arrangements or complex financial instruments may warrant specific consideration).

APPENDIX B: DISCLOSURE NOTES

Examples of alternative presentations of disclosure notes which may allow the accounts to be produced in a more streamlined manner and enable the key messages to be more easily understood

1 – Use of summarised data (Glasgow City Council)

These examples provide effective aggregation of transactions in detailed disclosure notes for:

- Statutory overrides and adjustments
- Grant income

Accounting adjustments permitted under regulation during 2017/18	31 March 2018 Usable Reserves General Fund Reserve £000	Capital Grants Unapplied Account £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:			
Charges for depreciation and impairment, and downward revaluation of Property, Plant and Equipment and Assets held for sale	194,473		(194,473)
Amortisation of Intangible assets	2,109		(2,109)
Capital grant and contributions applied to the Comprehensive Income and Expenditure Statement	(106,744)	6,577	100,167
Net gain on sale of Property, Plant and Equipment and Assets held for sale	(705)		705
Loans Fund principal	(83,687)		83,687
Capital receipts applied	12,410		(12,410)
Capital expenditure charged to General Fund Reserve	(3,096)		3,096
Adjustments primarily involving the Financial Instruments Adjustment Account:			
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement differ to that calculated under statute	(3,920)		3,920
Adjustments primarily involving the Pension Reserve:			
Amounts by which pension costs debited or credited to the Comprehensive Income and Expenditure Statement differ to that calculated under statute	75,000		(75,000)
Adjustments primarily involving the Employee Statutory Adjustment Account:			
Amount by which employees' remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	884		(884)
Totals	**86,724**	**6,577**	**(93,301)**

2016/17 Net Expenditure / (Income) £000	*Debtor / (Creditor) at 31 March 2017 £000*	**Related party transactions and balances**	**2017/18 Expenditure £000**	**Income £000**	**Debtor / (Creditor) at 31 March 2018 £000**
(420)	44,331	Scottish Event Campus Ltd	500	(105)	45,371
134,961	(7,483)	City Building (Glasgow) LLP	46,985	(7,108)	2,651
0	0	City Building (Contracts) LLP	71,074	(4,501)	(8,018)
1,962	36,293	City Parking (Glasgow) LLP	6,122	(3,999)	35,804
73,976	(560)	Culture and Sport Glasgow	83,368	(8,770)	324
53,513	506	Cordia (Services) LLP	60,622	(6,975)	482
62,176	(394)	Cordia (Care) LLP	62,914	0	(236)
2,075	(150)	City Property Glasgow (Investments) LLP	4,922	(1,588)	(561)
1,933	(126)	City Property (Glasgow) LLP	2,939	(786)	(715)
12,378	211	Community Safety Glasgow Ltd	13,841	(1,877)	(173)
50,310	(3,122)	Service Glasgow LLP	59,940	(8,030)	1,861
8,429	79	Jobs & Business Glasgow	8,497	(2,115)	(695)
11,101	3,571	Strathclyde Partnership for Transport	10,879	0	1,704
66,126	(800)	Strathclyde Pension Fund	72,187	(3,361)	(945)
31,071	(2,637)	Teachers' Pension Fund	32,146	0	0
(1,466)	61	Clyde Gateway	218	(453)	(7)
19,295	(19,295)	Glasgow City Integration Joint Board	390,118	(370,487)	(31,375)
(46)	29	Scotcash	57	(88)	0

2 – Use of Tables

(Lambeth)

This example illustrates the use of tables rather than narrative format to present accounting policies and explanations of statutory overrides and adjustments in the Expenditure Funding and Analysis disclosure note.

Class of Assets	Valuation Basis
Property, Plant and Equipment: Dwellings	Existing use value for social housing
Property, Plant and Equipment: Other Land and Buildings	Existing use value; and depreciated replacement cost in the case of specialised assets such as schools
Property, Plant and Equipment: Surplus Assets	Fair value – level 2 - Significant Observable Inputs. Land, Office and Retail assets have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the level of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.
Pensions Assets	Fair values based on the following: ▪ quoted securities – current bid price ▪ unquoted securities – professional estimate ▪ unitised securities – current bid price ▪ property – market value.

Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant and Equipment	Depreciation and revaluation/impairment losses	Annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.	Capital Adjustment Account
Intangible Assets	Amortisation and impairment		Capital Adjustment Account
Investment Properties	Movements in fair value		Capital Adjustment Account
Revenue Expenditure Funded from Capital under Statute	Expenditure incurred in 2017/18		Capital Adjustment Account

3 Pooled budget disclosure

When pooled budgets were first introduced to encourage joint working and use of resources between the NHS and local government under section 75 of the NHS Act 2006, there was genuine pooling of resources between local authorities and NHS bodies, with funds being held by one partner on behalf of all pooling partners, sharing of risk and surpluses/deficits. However with the introduction of the Better Care Fund, some local authorities have moved away from pooling to just joint working, but with each partner retaining control of their own funds.

If there is no evidence of unanimous decision making, then the disclosure can be simplified and limited to the requirements of Code paragraph 3.4.4.1(4) as shown by the example below.

Example Better Care Fund disclosure

The Council has entered into a non-pooled partnership arrangement under section 75 of the National Health Service Act 2006 with the Central London and West London Clinical Commissioning Groups for the provision of Adult Social Care and Health Services with primary support needs of physical support, mental health support, learning disability support, support with memory and cognition, social support and services to safeguard adults.

Identifies the partner bodies)

The aim is to meet the needs of people living in the Westminster City Council area. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the re-ablement of residents.

Explains the purpose of the partnership

Only expenditure under the Council's remit is recognised in the Comprehensive Income and Expenditure Statement. Any surplus or deficit generated from the arrangement is the responsibility of the respective partner to whom it is attributed. The partnership arrangement includes all income and expenditure relating to the Better Care Fund, whether funded by Council or by the NHS partners. The partner authorities are responsible for managing the individual schemes for which they have lead responsibility.

Explains recognition, measurement and presentation

2016/17				2017/18		
WCC	CCGs	Total	Programme area	WCC	CCGs	Total
£000s	£000s	£000s		£000s	£000s	£000s
8,759	4,264	13,023	Learning disabilities support	15,500	5,813	21,313
		0	Improved Better Care Fund	8,721		8,721
4,925	4,029	8,954	Mental Health	4,587	3,865	8,452
	6,816	6,816	Existing NHS Community Services		6,988	6,988
	6,065	6,065	Re-ablements and socal care services		6,277	6,277
998	6,961	7,959	Community independence service	1,100	4,783	5,883
5,585	11,170	16,755	Other	6,922	9,352	16,274
20,267	**39,305**	**59,572**		**36,830**	**37,078**	**73,908**

Disclosure limited to significant programme areas only using £5m as cut-off

Source: Westminster City Council Statement of Accounts 2017/18

4 – COMBINING DISCLOSURE NOTES

This worked example combines disclosures of cost/valuation and net book value for property plant and equipment, Investment Properties, Heritage assets and Assets Held for Sale.

NOTE: There are limits to this approach. The example is probably close to the limit of what you might wish to present on one page.

2017/18								2018/19						
£000 Land and Buildings	£000 Vehicles, Plant and Equipment	£000 Infrastructure	£000 Total property, plant and equipment	£000 Investment Properties	£000 Heritage Assets	£000 Assets held for sale		£000 Land and Buildings	£000 Vehicles, Plant and Equipment	£000 Infrastructure	£000 Total property, plant and equipment	£000 Investment Properties	£000 Heritage Assets	£000 Assets held for sale
60,544	70,757	355,116	486,417	410,538	42,746	2,250	Gross cost 1 April 2018	74,998	71,513	384,592	531,103	423,085	46,817	2,750
(3,605)	59,422	(140,763)	(84,946)	(5,269)	0	0	Less: Depreciation and disposals	(17,469)	55,917	(177,757)	(139,309)	(14,055)	0	(2,250)
56,939	130,179	214,353	401,471	405,269	42,746	2,250	Net Book Value 1 April 2018	57,529	127,430	206,835	391,794	409,030	46,817	500
14,418	756	29,476	44,650	585	4,071	0	Additions	11,418	1,919	25,555	38,892	23,130	0	0
536	0	0	536	11,962	0	0	Revaluations	693	0	0	693	476	0	0
(13,364)	(3,505)	(36,994)	(53,863)	0	0	0	Depreciation and Impairment	(20,801)	(4,556)	(37,255)	(62,612)	0	0	0
(500)	0	0	(500)	(8,786)	0	(2,250)	Derecognitions and disposals	(637)	(55)	0	(692)	(476)	0	(500)
(500)	0	0	(500)	0	0	500	Transfers and reclassifications	0	0	0	0	(2,750)	0	2,750
57,529	127,430	206,835	391,794	409,030	46,817	500	Net Book Value 31 March 2019	48,202	124,738	195,135	368,075	429,410	46,817	2,750
74,998	71,513	384,592	531,103	423,085	46,817	500	Gross Cost 31 March 2019	87,109	73,432	410,147	570,688	443,941	46,817	2,750
(17,469)	55,917	(177,757)	(139,309)	(14,055)	0	0	Less: Depreciation and diposals	(38,907)	51,306	(215,012)	(202,613)	(14,531)	0	0
57,529	127,430	206,835	391,794	409,030	46,817	500		48,202	124,738	195,135	368,075	429,410	46,817	2,750

5 – Fair Value

This table demonstrates how the Authority has met IFRS 13 requirements by combining all relevant disclosures for each asset category where Fair Value requirements apply.

Classified in Balance Sheet as	Basis of valuation		Observable and unobservable inputs	Key sensitivities affecting valuation	Valuation range £000	Carrying value £000
Exchange traded pooled investments (Level 1)						
(Short term investments)		Closing bid value on published exchanges	Not required	Not required	Not required	2018/19: £37,898 2017/18: £41,688
Freehold and leasehold properties (level 3)						
Surplus assets, investment properties, assets held for sale	3	Valued at fair value at the year-end by John Finley FRICS of independent valuers Carrott-Jones LLP in accordance with the RICS Valuation Standards (9th Edition).	Existing lease terms and nature of tenancies, Vacancy levels Estimated rental growth and discount rates	Significant changes in rental growth, vacancy levels or the discount rate could affect value as could general changes to market prices	+/- 10% Maximum Value: £374,263 Minimum Value: £306,215	2018/19: £340,239 2017/18: £330,727
Unquoted equities (level 3)						
Long term investments	3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to future cashflows, or significant post balance sheet events	+/- 15% Maximum Value £482,977 Minimum Value £356,983	2018/19: £420,480 2017/18: £415,360

6 – Statutory Adjustment Disclosures

Background

There are opportunities throughout the accounts to streamline presentation. However, practitioners might be unwilling to take all of these opportunities because they would obscure information that is locally judged material and would otherwise not be disclosed elsewhere. Alternatively, a note might collect together information that is available in other notes but is usefully presented again in one place.

The Statutory Adjustments note is a good example. The note can be collapsed down to show the reconciling amounts for each category of adjustment. Linking this in with the unusable reserves matched with each adjustment allows the Unusable Reserves note to be similarly streamlined. However, this depends on a judgement that any primary users of the accounts will either not be interested in what makes up the reconciling entries or be able to identify the material items in the reconciling amounts elsewhere.

This presentation is therefore only suitable for those authorities who judge that the key information to be conveyed in the note is that adjustments have been made in particular areas of the accounts to convert financial accounting figures into those impacting on council tax and that it would clutter the accounts to show users anything more than the net effect on the General Fund Balance. The presentation would need to be supported by an accounting policy describing the make-up of each adjustment (see example in the Accounting Policies section Three):

2018/19	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Unusable Reserves £000s	Relevant Unusable Reserve
	Usable Reserves						
Adjustments to Revenue Resources							
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement differ from increases/decreases in revenue for the year calculated in accordance with statutory requirements:							
· Financial instruments	x	x	-	-	-	A	Financial Instruments Adjustment Account
· Pensions costs	x	-	-	-	-	B	Pensions Reserve
· Council tax	x	-	-	-	-	C	Collection Fund Adjustment Account
· Holiday pay	x	-	-	-	-	D	Accumulated Absences Account
· Capital expenditure	x	x	(x)	(x)	(x)	E	Capital Adjustment Account
Capital and Revenue Financing							
Resources set aside for capital financing	x	x	x	x	x	F	Capital Adjustment Account
Use of capital receipts for revenue purposes	(x)		x			-	
Recognition and transfer on realisation of deferred capital receipts	x		(x)			G	Deferred Capital Receipts
Total Adjustments	x	x	x	-	(x)		

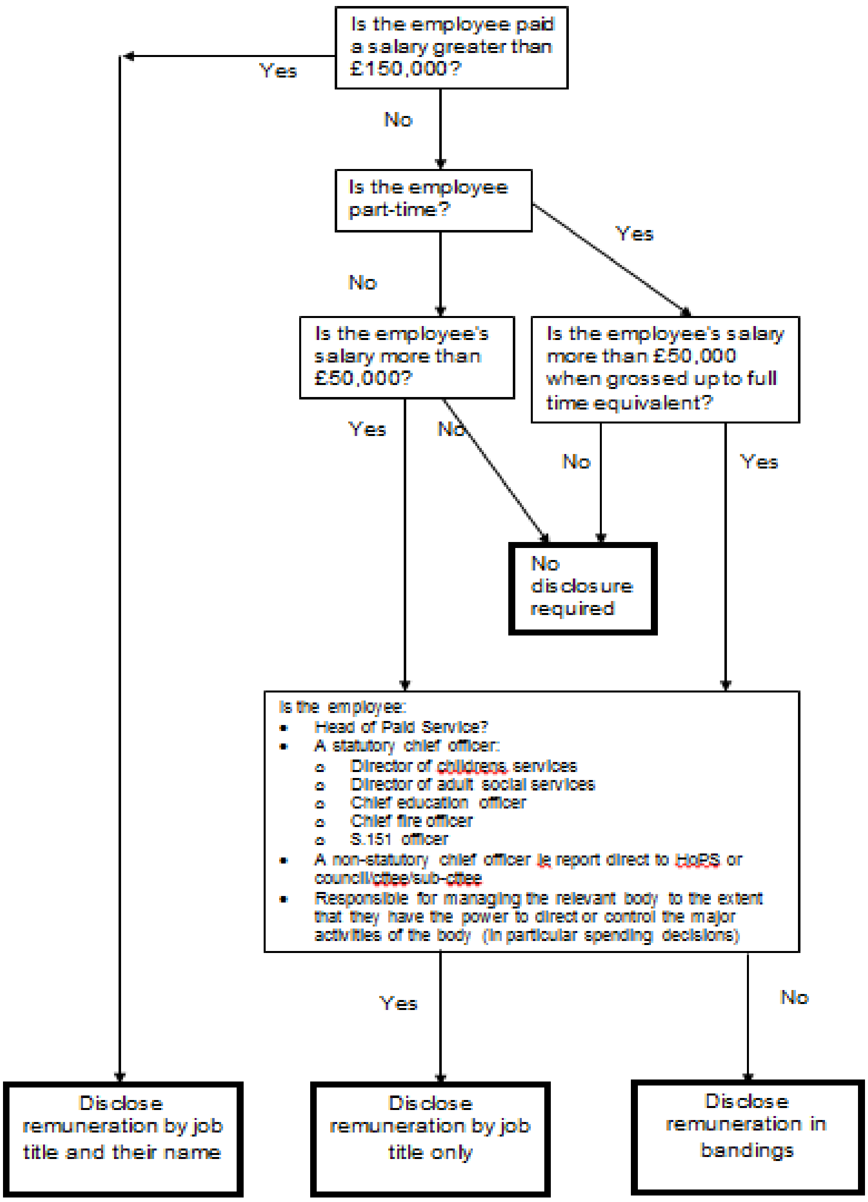
Unusable Reserve	Opening Balance 01-Apr-18 £000s	Other Comprehensive Income and Expenditure 2017/18 (CIES) £000s	Adjustments between Accounting and Funding Basis 2017/18 (Note AAA) £000s Adjustments to Revenue Resources £000s	 Capital and Revenue Financing £000s	Other Movements* £000s	Closing Balance 31-Mar-19 £000s
Revaluation Reserve	X	X			(X)	X
Available for Sale Financial Instruments Reserve	X	X	-	-	-	X
Financial Instruments Adjustment Account	X	-	A	-	-	X
Pensions Reserve	X	X	B	-	-	X
Collection Fund Adjustment Account	X	-	C	-	-	X
Accumulated Absences Account	X	-	D	-	-	X
Capital Adjustment Account	X	-	E	F	X	X
Deferred Capital Receipts	X	-		G	-	X
Total	X	X	X	X	-	X

Other Movements = the transfer for historical cost v current value depreciation

7 Senior Officer Remuneration and Exit Packages Disclosure

Given the statutory responsibilities that councils have to disclose their senior staffing salaries in the accounts, many authorities may disclose more than is necessary. This note is therefore open to streamlining to ensure that the story of the note can be told as succinctly as possible.

There is scope to streamline the senior officer section via the use of the following decision tree. This ensures that all disclosures meet statutory requirements and can be streamlined as far as possible:



Any senior officer that does not fall into the categories above can simply be noted in the £50k remuneration section.

Further opportunities to reduce this section of the note are:

- to remove the notes for the prior year remuneration table and only include in the current year as with Westminster City Council's accounts. This can reduce clutter by up to a page while still remaining Code compliant.
- amalgamate the prior year and current year table into a single table with comparators shown by person, i.e:

Officer	**Note**	**Year**	**Salary, Fees and Allowances**	**Compensation for Loss of Office**	**Pension Contribution**	**Total**
Officer A*	A	2017/18	0	0	0	0
		2016/17	123,456	45,000	50,000	218,456
Officer B		2017/18	100,000	0	10,000	110,000
		2016/17	90,000	0	9,000	99,000

*Officer A left the Council on 31 January 2018.

The £50,000 remuneration section does not need to be in full steps of £5,000 if there is a zero entry for the current and prior year. There are a number of councils that show the table with large amounts of empty rows simply to retain the incremental steps. Furthermore, the statutory requirement is for all council employees above £50,000 to be shown, you are not required to separate teachers from council officers.

The same applies for exit packages where there is no requirement to denote the bands if there is a zero entry. A simple side note drawing the reader's attention to the removal of nil rows will not only reduce clutter but also make the tables much easier to read.

8 - Financial Instruments Disclosures

These disclosures comprise two separate elements:

a) Quantitative disclosures on Financial Instruments

Disclosure requirements for financial instruments arise from IFRS 7 *Financial Instruments: Disclosures* which has been effective since the introduction of the IFRS-based Code in 2010/11. This has recently been updated by the introduction of new disclosure requirements under the 2018/19 Code's implementation of IFRS 9 *Financial Instruments*. The introduction of the new disclosure requirements under IFRS 9 has the potential of increasing the reporting requirements for financial instruments. However, the Code would only require that disclosures are included if they are a) relevant and b) material to the local authority. Following a local authority's determination of both these (see also sections one to four in this publication) consideration can then be given to identifying the most effective way of presenting these disclosures – see flowchart below.

b) Nature and Extent of Financial Instrument Risks

These are largely narrative disclosures which should be considered in terms of relevance and materiality (as above) but also in terms of the significance of the actual risk that they represent. It is also important to remember that these disclosures should not duplicate risks already reflected in the financial statements by way of provisions, write offs or contingent liability disclosures.

Market and liquidity risks, for example, will vary significantly depending on the nature of the authority's treasury management strategy and its investment and borrowing portfolios. The greater the diversification the more risks an authority is likely to encounter, and therefore may need to disclose, but disclosures can be consolidated based on materiality.

For **price risk** an authority should consider the following:

- How likely are the carrying values of investments to rise or fall with market movements? If the Council only invests in overnight fixed rate cash deposits this is not going to be a risk at all however if the authority invests in property funds this will be a significant risk.
- Is there difficulty obtaining fair value market prices for investments? Unless the authority invests in more complex strategies this is unlikely to be an issue.

Interest rate risk is likely to impact the majority of authorities as it hits investments and borrowing equally. Disclosures should in most cases cover the following:

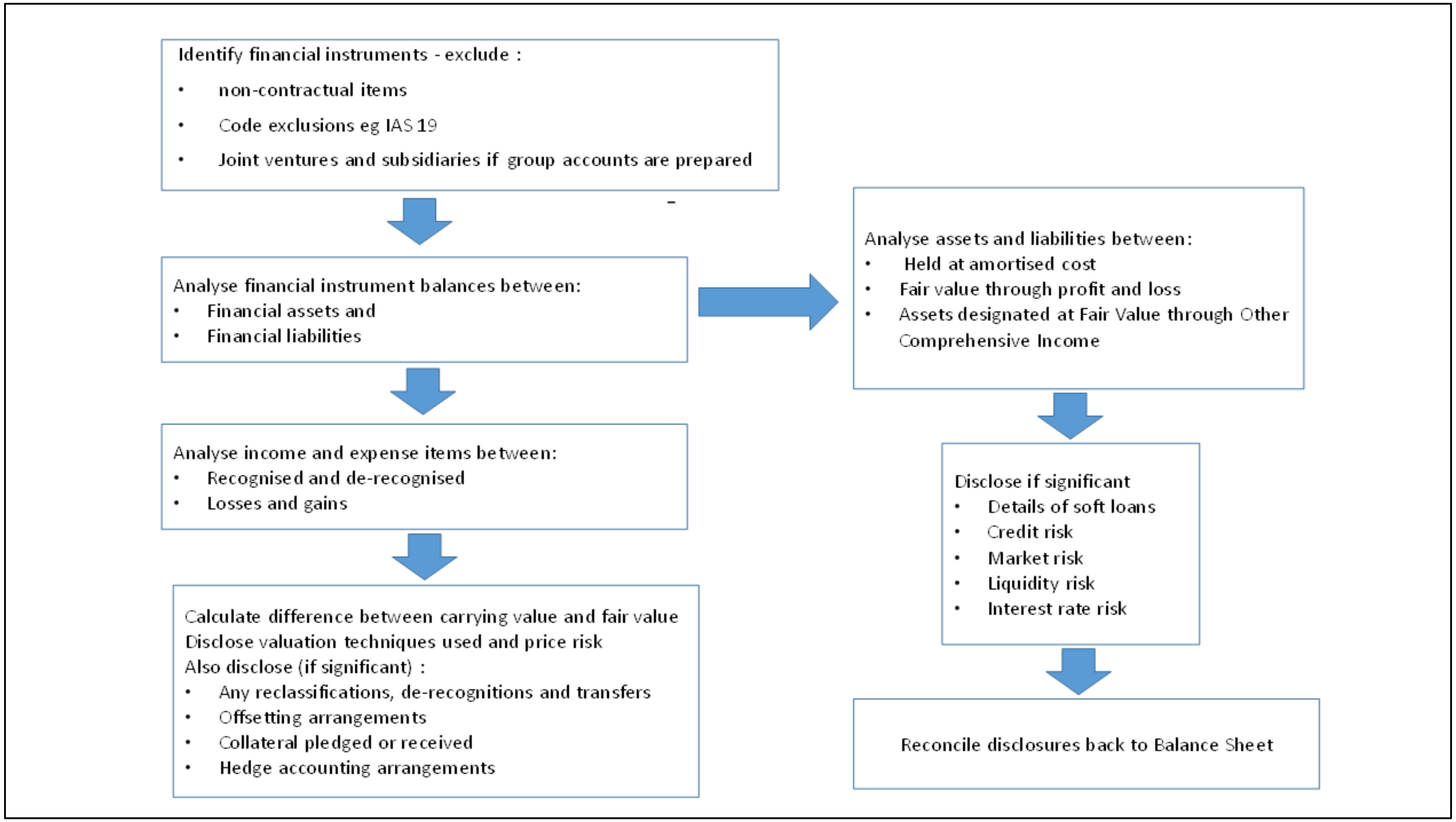
- What is the maturity profile of the authority's borrowing? If a significant proportion is due to mature sooner, and interest rates are lower, this is likely to be beneficial.
- What is the authority's split between fixed and variable interest rates? Long term fixed loans are more likely to be impacted by interest rate risk than a large

variable rate loan portfolio.

Adequate policies on the movement in impairment allowances and bad debt write-offs and provisions, coupled with new requirements for credit loss and impairment allowances under the 2018/19 Code, are likely to render many previous credit risk disclosures unnecessary. Areas to consider include:

- trade debtors covered in the bad debt provision should not be duplicated
- assets can be grouped by risk level and need not be listed individually
- does the council invest in non-specified (alternative) investments without credit ratings?
- loans to small companies or charities which are not statute – backed or covered by holding company guarantees could be affected by IFRS 9 and carry more risk
- the relevance of disclosure will increase if there is greater risk appetite in the investment portfolio. If the authority only invests in fixed interest bonds there is no credit risk
- many councils list their corporate risks in the narrative report. Where these relate to financial instruments they can simply be cross-referred to the relevant section in the financial instruments note.

Financial Instruments Flowchart



APPENDIX C: STREAMLINING THE CLOSURE PROCESS

Appendix C1 - Closedown plan

This example is based on a joint committee closedown plan, with names and dates removed. Key points to note are:

- the plan identifies key tasks, and assigns each task to a named individual
- the first page ensures that all disclosures are covered in the closedown plan
- the plan sets target dates and actual completion dates for each task so that progress can be monitored and action taken if needed
- the plan also sets out who is responsible for reviewing each task, and records target and actual completion dates.

(A key part of the post implementation review is to compare target and completion dates to inform the setting of (resources for) next year's timetable).

CORE STATEMENTS AND DISCLOSURE NOTES			
Assertion	Task ref	Completion	
		Date	Preparer
Introduction and Foreword	15		
AGS and Statement of Responsibilities	19		
CIES	41		
Balance Sheet	41		
Cash Flow Statement	42		
MIRS	41		
Note 1 - accounting standards issued not yet adop	14		
Notes 2&3 - critical judgements and assumptions	14		
Notes 4&5 - material transactions and PBSEs	10		
Note 6 - PPA	17		
Note 7- adjustments between accounting and fundi	41		
Note 8- transfers to and from reserves	34		
Note 9- FInancing and investment income and exp	46		
Note 10- property plant & equipment	24		
Note 11- investment properties	24		
Notes 12 & 13- Financial instruments	46		
Note 14- inventories	37		
Note 15- debtors	37		
Note 16- cash and cash equivalents	40		
Note 17- creditors	37		
Note 18- provisions	34		
Note 19- unusable reserves	46		
Notes 20, 21 & 22- cash flow statement	42		
Note 23- subjective analysis	45		
Note 24- officer and member remuneration	28		
Note 25- audit costs	46		
Note 26- grant income	46		
Note 27 - RPTs	46		
Note 28- capex and capital financing	25		
Note 29- leases	36		
Note 30- PFIs	36		
Note 31- Impairment Losses	24		
Note 32- pensions and retirement benefits	32		
Notes 33 & 34- contingent assets and liabilities	10		
Note 35 - other long term liabilities	36		
Accounting policies	14		
Group accounts	46		
Glossary	15		

				Preparer	Date		Reviewer	Date
Task ref	Date	Action						
1		Agree timescales for info required from SHMBC and LGPS actuaries						
2		Liaise with group associates regarding receipt of info for consolidation purposes						
3		Ensure GL opening balances agree to last years audited accounts						
4		Complete reconciliation of cash transactions to SHMBC records agree closing cash, investments and loans balances at that date and correct any mispostings						
5		Reconcile AP, AR and payroll accounts , clear reconciling items and correct mispostings						
6		Consider expected purpose and use to date of earmarked reserves and provisions . Confirm continuing requirement for balances and proposed transfers to and from reserves in year. Finalise report for Cttee approval for transfers to and from reserves.						
7		Update Fixed Asset Register for capital transactions to date, correct any mispostings between capital and revenue. Carry out impairment review, request valuations from SHMBC as necessary and collate info re proof of ownership for audit						
8		Review Aged Debt for required provisions and potential write offs, finalise report for cttee approval if required.						
9		All disputed AP invoices to be resolved and paid and all suspense and holding accounts cleared						
10		Consider and draft SOA disclosures for PBSEs, capital commitments, contingent assets and liabilities.Identify material transactions and draft appropriate disclosure note						
11		Review all revenue postings (income and expenditure). Correct mispostings , duplicate entries etc. Ensure all transactions have been allocated to the correct CIES heading.						

12		Ensure list of legal charges, contingencies and commitments is up to date and reviewed for IFRS impact and disclosure requirements							
13		Ensure contract documentation is available for all leases, service concessions and other contract arrangements. Assess for categorisation and accounting treatment. Update working papers to							
14		Review Accounting Policies and key accounting estimates and and judgement (notes 1 to 3).Change where necessary following discussion with auditors and approval by TCWG.							
15		Review Accounts format including glossary, bring forward previous year notes and core statement comparatives							
16		Create working papers files and coordinate working papers throughout final accounts process							
17		Consider any requirement for PPA, if this exists discuss with auditors, draft disclosure requirements and post journals to GL							
18		Update and issue year end procedures and certificates for year end Petty Cash/Stamps/Franking Machines, year end cut off and accruals, stock balances and annual leave							
19		Draft annual governance statement for TCWG approval and review							
20		Bank all cheques/cash received up to first post. Post all cash in transit							
21		Ensure all I and E transactions are posted to ledger							
22		Review support services recharges from SHMBC and central costs reallocated to services. Ensure recharges have been correctly identified and calculate year end accruals. Raise journals for allocation to correct Sercop heading							
		Cut off day- Final Date to receipt old year goods/services or issue invoices							
23		Chase up year end certificates for Petty Cash/Stamps/Franking Machines, stock, year end accruals, stock balances and annual leave.Calculate year end leave accrual and post these balances to GL							
24		Finalise year end Asset Register and balance to ledger.Post capital accounting entries and draft relevant SOA disclosure notes for PPE , impairment losses and investment properties							
25		Finalise capital financing statement, post journal entries and draft relevant SOA disclosure notes							

26		Review utility bills and other periodic payments. Calculate and post year end accruals and prepayments							
27		Finalise reconciliation of cash transactions and bank reconciliations, agree closing cash, investments and loans balances and correct any mispostings.Post journals to ledger and ensure all suspense items have been cleared							
28		Reconcile all payroll control accounts. Clear mispostings and and suspense account items and post year end journals as required.Draft staff cost and remuneration disclosure notes and supporting working papers.							
29		Finalise Goods Receipted Not invoiced Report.Calculate Accruals and post to GL							
30		Reconcile AP, AR and payroll accounts, clear reconciling items and correct mispostings.Identify and correct credit balances on AR ledger and debit balances on AP ledger, clear suspense and holding a/c balances and make journal adjustments to GL as necessary.							
31		Finalise HMRC and VAT control accounts, post year end journals to GL.							
32		All feeder systems Closed- 4pm							
33		Prepare pensions workings and disclosure note. Post year end journals to GL							
34		Update and finalise calculations for provisions and transfers to and from reserves. Post year end journals to GL and draft disclosre notes							
35		Review all revenue postings (income and expenditure). Correct mispostings , duplicate entries etc. Ensure all transactions have been allocated to the correct Sercop heading.							
36		Update and finalise working papers and disclosure notes for leasing, contract and service concession arrangements and any other long term liabilities identified. Draft disclosure notes and post year end journals to GL							
37		Identify any further year end accruals and prepayments required,eg for interest payable and receivable, income due not yet received, etc. Post journals to GL and draft SOA disclosure notes for inventories, debtors and creditors							
38		Reverse opening balances postings							

39		1st End of year TB run by 4pm							
40		Review 1st TB and underlying transactions, make corrections as required.							
41		Draft core statements- CIES, Balance Sheet and MRS - plus notes 7, 8 and 19 with supporting working papers. Draft stat adjustments and EFA notes							
42		Draft CFS and disclosure notes with supporting working papers.							
43		Confirm consistency with GL and core statements. Post any further adjustments required							
44		Final TB run by 4pm. Month 13 GL Closed.							
45		Draft FI disclosure note and subjective analysis, together with supporting working papers							
46		Draft remaining SOA disclosure notes- FIIA, audit costs, RPTS and grant income, with supporting working papers							
47		Single entity accounts complete							
48		Review and amend where necessary single entity SOA							
49		Compile and review working paper file. Carry out consistency checks between wps and draft accounts							
50		Compile group accounts and supporting info							
51		Compile WGA and supporting info							
52		Carry out consistency checks on group accounts and WGA							
53		WGA and group accounts completed							
54		Complete QA and disclosure checklists							
55		Draft introduction and foreword							
56		Finalise working paper file for audit							

Appendix C2 - Wall tracker

This is useful as a visual aid to help staff see progress (used at Reading Borough Council)

CLOSURE TRACKER

STATEMENT / NOTE	Do	Do Date	Review	Review Date	COMPLETED	QUALITY CHECKED
Core Statement - Comprehensive Income and Expenditure Account	xxxx	xxxx	xxxx	xxxx		
Note 5 - Material Items of Income and Expenditure	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 6 - Events After the Balance Sheet Date	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 7 - Expenditure and Funding Analysis	xxxx	xxxx	xxxx	xxxx		
Note 8 - Adjustments Between Accounting Basis and Funding Basis	xxxx	xxxx	xxxx	xxxx		PW to review
Note 9 - Movement in Earmarked Reserves	xxxx	xxxx	xxxx	xxxx	Completed	1 query o/s
Note 10 - Other Operating Expenditure	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 11 - Financing and Investment Income and Expenditure	xxxx	xxxx	xxxx	xxxx		
Note 12 - Taxation and Non-Specific Grant Income and Expenditure	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 13 - Expenditure and Income Analysis by Nature	xxxx	xxxx	xxxx	xxxx		
Note 31 - Acquired and Discontinued Operations					Not Applicable	Not Applicable
Note 32 - Trading Operations	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 33 - Agency Services	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 35 - Pooled Budgets	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 36 - Members' Allowances	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 37 - Officers Remuneration	xxxx	xxxx	xxxx	xxxx	Completed	1 query o/s
Note 38 - External Audit Costs	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 39 - Dedicated Schools Grant	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 40 - Grant Income	xxxx	xxxx	xxxx	xxxx	Completed	Completed
Note 41 - Related Party Transaction	xxxx	xxxx	xxxx	xxxx	Completed	Completed

Appendix C3 - The Annual Governance Statement (AGS)

Much of the work undertaken in respect of the AGS should be completed in-year in terms of internal audit coverage, the annual governance review, and follow-up work to address issues identified in previous years. Reporting this information separately to members means that governance issues get the attention they deserve (rather than being subsumed into the process of approving the year-end accounts) and enables a summarized version of this information to be included in the year-end accounts.

Paragraph 3.7.4.4 of the Code only requires the following information to be included in year-end financial statements in respect of the Annual Governance Statement:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating systems of internal control)
- a reference to and assessment of the effectiveness of key elements of the governance framework, including group activities where these are significant, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others if locally appropriate
- an opinion on the level of assurance the governance arrangements provide
- an agreed action plan and conclusion.

There is no requirement to reproduce the whole Annual Governance Review and supporting information together with current and prior years' action plans in full.

Appendix C4 – Disclosure Notes

The following disclosure notes can be drafted in advance of the year-end, then updated prior to QA and review:

Accounting policies	Trading operations	Capital expenditure and financing
Accounting standards issued but not yet adopted	Agency services	Leases
Critical judgments	Acquired and discontinued operations	Service concessions and PFI schemes
Assumptions made about the future	Pooled budgets	Impairment losses
Material items of income and expenditure	Members’ allowances	Termination payments
Movement in earmarked reserves	Officer remuneration	Contingent assets
Capital commitments	External audit fees	Contingent liabilities
Assets held for sale	Dedicated schools grant	Risks arising from financial instruments
Creditors	Grant income	Trust funds
Provisions	Related party transactions	

APPENDIX D: WORKING PAPERS AND AUDIT TRAIL

Appendix D1 Example audit trail for short-term creditors disclosure note

Example disclosure in financial statements:

Short term creditors	£m
Other authorities	18
Public corporations	3
Bodies external to central government	17
Accumulated absences	1
TOTAL	**39**

Should be supported by the following working papers:

Feeder system reconciliation	£k
Balance on AP system 31 3 2017	36897
Add GRNIs	602
	37499
Grant overpayment - jnl1	165
Year end accruals - jnl 2	501
Accumulated absences - jnl 3	1000
TOTAL	**39165**

Supported by aged creditors list

Supported by details of all goods received not invoiced at year end

Journal vouchers with supporting info

Plus spreadsheet analysis

disclosure note analysis	Public bodies	Other LAs	External	Absences	£k
AP balances	3000	18300	15597		36897
GRNI balances			602		602
					37499
Grant overpayment	165				165
Year end accruals			501		501
Accumulated absences				1000	1000
TOTAL	**3165**	18300	16700	1000	**39165**

Appendix D2 – Example Working Papers for Pension Fund Accounts

Working paper index

Lists all working papers relevant to the statement or disclosure note and where these can be accessed

LGPS 2017/18

Note 7 CONTRIBUTIONS and Note 22 AVCs

WP1 Analysis of contributions income by employer, reconciled to GL with explanations for any major changes.	Contrib analysis!A1
WP 2 Comparison of actual vs expected receipts	Contrib analysis!A1
WP3 List of changes to admitted bodies supported by relevant application/approval information	See separate file
WP4 Supporting calcuations for year end accruals and prepayments relating to contributions	Contrib analysis!A1
WP 5 Details of and supporting information for any additional employer contributions made in year	Contrib analysis!A1
WP 6. Latest scheme guidance (from website)	N/A - none
WP 7. Correspondence with regulators	N/A - none
WP 8. Copies of SLAs or service provider contracts	See separate file for copy of s.

Summary of work done

LGPS 2017-18	
CORE STATEMENT OR DISCLOSURE NOTE	Investments
EXTERNAL AUDIT WP REQUIREMENTS	xxx,xxx,xxx,xxx
PREPARED BY	xxxxx
DATE COMPLETED	xxxxx
PURPOSE OF WORKING PAPER	To summarise year end value of investments and draft disclosure note 14 to 14E, based on custodians report To confirm that fund manager reports agree to custodians reports and any reconciling items have been addressed To identify for disclosure purposes any investments over 5% of total portfolio To analyse investments as required by the Code To calculate change in market value of investments
SOURCE DOCUMENTS USED (attach here or explain where they can be found)	Link to custodians reports: BNYM MV Rec Summary - BNY.pdf 21.04 Market Value Reconciliation FM analysis (3).pdf Holdings at year end - BNY.pdf MV by FM equities only - BNY.pdf Link to Fund manager statements and year end reconciliations Q4 Investment Reconciliation.xlsx
LINK TO SPREADSHEET OR WORD DOCUMENT	Link to draft accounts and working papers \pension fund accounts and notes 2017-18.docx. \note 14 investments and change in market value of investments.xlsx.
REVIEWED BY Date xxxxxxxxxxxxx	xxxxx see QA checklist and review sheet
OVERALL COMMENTS/CONCLUSION FROM REVIEW	Year end journals need to be posted for change in market value of investments and other non cash movements and year end adjustments on investment balances May require reworking of prior years journals as opening balance on LGPS ledger does not agree to 2016/17 audited accounts Update xx xx xx - Now addressed and journals drafted - see work done on ..\02 Fund Account and NAS\SoA.xlsx

Identifies preparer and reviewer

Identifies date completed and reviewed

Links work done to auditors' list of working paper requirements

Explains purpose of working paper and methodology applied

Links and identifies source documents, detailed workings and draft disclosure note or core statement

Analytical review

Note 07 - Contributions receivable

£000 2016/17		£000 2017/18	£k Difference	% Difference	Reason for variance over £1m or 15%	WP ref or link
	Contributions by authority:					
(25,928)	Administering authority	(43,652)	(17,724)	40.6	This is due mainly to increased deficit funding (see details below) paid in	
(5,856)	Scheduled bodies	(5,763)	93	(1.6)		
(4,122)	Admitted bodies	(4,461)	(339)	7.6		
(35,906)		(53,876)	(17,970)			
	Contributions by type:				(1.0)	
(8,706)	Employees contributions	(8,894)	(188)	2.1	(8,893.0)	
	Employers' contributions:					
(15,680)	- normal	(19,668)	(3,988)	20.3		
(9,957)	- deficit recovery	(24,863)	(14,906)	60.0	The actuary set a monetary amount of £20.5m for deficit recovery at the 2	
(1,563)	- augmentation	(451)	1,112			
(35,906)		(53,876)	(17,970)		(44,982.0)	
					(44,982.0)	
TRUE		TRUE			0.0	

Identifies and explains significant changes in disclosures compared to previous years

Code disclosure checklist

CODE REQUIREMENT	YES	NO	N/M	N/A
Have the following been analysed in the notes to the accounts:				
a) Contributions receivable analysed between:				
- From employers?	yes			
- From members?	yes			
Are total contributions receivable and benefits payable analysed between:				
- The administering authority;	yes			
- Scheduled bodies, and	yes			
- Admitted bodies?	yes			

Confirms all relevant disclosure and presentation requirements have been met

Use column 3 to record any disclosures omitted on materiality grounds

Pre-audit checklist

Evidences pre-audit review

Lists all consistency and QA checks carried out

Confirms that draft accounts agree to ledger

Confirms that underlying feeder systems have been reconciled

Confirms all journals have been posted

Confirms issues arising last year have been addressed

Confirms disclosures have been prepared in a suitable format for inclusion in draft accounts

LGPS 2017/18

VORKING PAPER CHECKLIST - CONTRIBUTIONS, BENEFITS, TRANSFERS AND AVCs

Item	Preparer Yes/No/NA	Reviewer/QA Agreed/Not agreed
Have any new Financial Standards or changes in guidance had any impact on this working paper? If yes, please use the comments page to detail what has been changed and how you have dealt with this?	None	Agreed
Have you completed the attached Disclosure Checklist to confirm that presentation meets Code requirements?	yes	Agreed
Are the draft disclosure notes consistent with, and correctly cross-referenced to, the Fund Account?	yes	Agreed
Have the notes been reviewed and updated for any Audit Recommendations made in previous years?	None	Agreed
Are all sums included as formulas?	yes	Agreed
Are all figures in working papers linked and not hard coded?	yes	Agreed
Are the draft disclosure notes set out in a systematic order?	follow order of CIPFA LGPS example accounts	Agreed
Have Notes been reviewed for grammatical and numerical presentation?	yes	Agreed
Where relevant have you completed an additions check including roundings?	yes via SoA workbook	Agreed
Has the Note been prepared using appropriate formatting for the SoA?	yes	Agreed
Where review and QA have led to corrections, consider the implication of possible changes to other transactions /working papers and notes and notify relevant person of correction(s) required.	N/A	Agreed
Does total of analysis by employing body agee to analysis by type of payment?	yes	Agreed
Have all year end journals been correctly processed?	yes	Agreed
Have year end accruals been raised for any contributuons due not yet received?	yes	Agreed
Have feeder systems/supporting information in respect of employer contributions been reconciled to relevant GL codes in the year end TB?	yes	Agreed
Have working papers been added to the shared folder for audit and is there an adequate audit trail between the draft accounts and working papers provided?	yes	Agreed

Prepared by: Y Thompson-Hoyte Date:25/3/18

Reviewed/QA'd by: M Hopson Date:25/3/18

TB 31.3.18 | TB 30.3.18 | TB 24.3.2018 | QA checklist | Review she

Review sheet

LGPS 2017-18

REVIEW/QA - Contributions

Please include any comments / information relevant to the working papers and analytical review

	Reviewers comments	Response	Review point cleared? Y/N	Further action taken eg confirm journal posted, WP amended etc
1	No matters arising			
2				
3				
4				
5				
6				
7				
8				
9				
10				

Lists issues identified by pre-audit review

Confirms these have been addressed

Records the impact of amendments made on draft accounts

Appendix D3 - Review sheet for PPE disclosure note

WORKING PAPER CHECKLIST - PPE	Preparer	Reviewer/QA
	Yes/No/NA	Agreed
Have any new Financial Standards or change in guidance had any impact on this working paper? If yes, please detail what has been changed and how you have dealt with this?		
Have you completed the relevant section of the CIPFA Disclosure Checklist and are all the working papers correctly referenced to this?		
Has the Note been reviewed and updated for any External Audit recommendations last year?		
If the opening balance has been re-stated has the balance been amended to reflect this together with clear referencing within the working papers? Otherwise does the opening balamce agree to last year's accounts?		
Do the closing balances agree to the year end Trial Balance?		
Have closing balances been reconciled to the Fixed Asset Register?		
Does the Property, Plant and Equipment (PPE) disclosure note agree to the Balance Sheet and is it cross-referenced correctly?		
Are all working papers linked and not hard coded?		
Is the Note set out in a systematic order?		
Has the Note been reviewed for grammatical and numerical presentation?		
Have you completed a full additions check including roundings?		
Has an analytical review been completed for all movements +/- 10% with a clear and meaningful explanation for each variance?		
If the review results in a correction, then consider the implication for other disclosures and working papers and notes and notify relevant person of corrections required.		
Has the Note been prepared using the appropriate formatting?		
Does the additions line in the PPE Note agree to the note on Capital Expenditure and Capital Financing?		
Do the relevant line in the PPE Note agree to the Cash Flow Statement?		
Are the depreciation and impairment charges in the PPE Note consistent with the Capital adjustment account and Statutory Adjustment Note?		
Is PPE being depreciated over the asset lives set out in the accounting policies?		
Is there written assurance from the Council's valuer to confirm adjustments for revaluations and impairments?		
Have all operational assets been revalued in the last five years? Are all valuation certificates and reports on file?		
Have surplus assets been reviewed to see whether they should be re-classified as operational assets or Assets Held For Sale?		
Prepared by:	Date:	
Reviewed/QA'd by:	Date:	

This checklist combines a number of checks aimed at ensuring standard tasks have been done (e.g. disclosure checklist, analytical review) together with checks targeted on key areas in this particular balance. This ensures that the QA is focussed on key risks within the accounts.

Appendix D4 – Pre-audit checks on draft year-end accounts

CONSISTENCY CHECKS	YES/NO	COMPLETED BY	DATE
Comprehensive income and expenditure statement			
Does the reported surplus or deficit for each year match the corresponding entries in the Movement in Reserves Statement (MiRS)?			
Is the reported surplus/deficit in the Comprehensive Income and Expenditure Statement (CIES) consistent with the cash flow statement and the Expenditure and Funding Analysis (EFA)?			
Is the statement correctly cross referenced to, and consistent with, relevant disclosure notes?			
Does the Total Comprehensive Income and Expenditure for the year equal the movement in net assets in the Balance Sheet?			
MiRS			
Do the opening balances in the Movement in Reserves Statement match with the closing balances of the preceding year? Are any adjustments to opening balances explained on the face of the Statement and/or in the notes?			
Do the entries on the statutory adjustment line net to nil?			
Are movements to and from earmarked and General Fund/Housing Revenue Account (HRA) reserves consistent between the MiRS, balance sheet movements and disclosure notes?			
Balance sheet			
Do reserves balances for each year match the corresponding entries in the MiRS?			
Do cash and cash equivalent figures in the balance sheet agree to the cash flow statement?			
Is the statement correctly cross referenced to, and consistent with, relevant disclosure notes?			
Cash Flow Statement			
Is the statement correctly cross referenced to, and consistent with, all relevant disclosure notes?			
Collection Fund			
Is the statement correctly cross referenced to, and consistent with, Collection Fund disclosure notes?			
Have previous year's surplus or deficits been apportioned and reallocated			
Housing Revenue Account (HRA)			
Does the Movement on HRA balances agree to the MiRS?			
Does surplus or deficit for the year on the HRA agree to Movement on HRA balance statement?			
Does the MRR balance back to £nil or if there is a credit balance remaining is this in line with the HRA business plan?			
Is HRA capital expenditure and depreciation in disclosure notes consistent with corresponding notes in the main statement of accounts?			

Group accounts			
Does Group CIES = single entity CIES plus limited co transactions?			
Have intergroup transactions and balances been taken out of the CIES and balance sheet?			
Do group accounting adjustments in the MiRS reconcile to the difference between Group and single entity reserves each year end?			
Have Group disclosure notes been prepared for all balance sheet items where group and single entity position is significantly different?			
Do all Group disclosure notes cross reference correctly back to Group core statements?			
Has a Group cash flow statement been prepared which cross references back where relevant to other core statements and disclosure notes?			
Accounting policies, critical judgements and assumptions			
Have accounting policies been updated to reflect any new requirements?			
Have appropriate disclosures been made in respect of standards adopted not yet applied?			
Have disclosed accounting policies been applied in practice as described?			
Material items of income and expenditure			
Does disclosure note only relate to transactions not covered elsewhere?			
Post balance sheet events, contingent assets and contingent liabilities			
Are disclosures correctly categorised between Post Balance Sheet Events, provisions and earmarked reserves?			
Statutory overrides and adjustments			
Are all material entries internally consistent between the Expenditure Funding Analysis (EFA), MiRS, and related disclosure notes?			
Transfers to and from earmarked reserves			
Is the nature and purpose of all earmarked reserves set out correctly in the disclosure note?			
Financing and Investment Income and Expenditure			
Are interest received and paid disclosures consistent between the cash flow statement and CIES (plus or minus accruals)?			
PPE and intangible assets			
Are charges for General Fund depreciation consistent between Property plant and Equipment (PPE) note and statutory adjustments disclosures?			
Has the current Net Book Value of finance lease / service concession assets been identified and disclosed?			
Financial instruments (FIs)			
Is the Financial Instruments (FI) disclosure note consistent with the balance sheet and other notes?			
Have additional disclosures been included to meet IFRS13 requirements?			

Capital expenditure and financing			
Are capital additions consistent between PPE and Capital Financing Requirement (CFR) notes?			
Are the sources of finance per CFR note consistent with movements on the Capital Adjustment Account (CAA) and analysis of statutory overrides in detailed disclosure note?			
Provisions			
Has the purpose of each provision been explained?			
Unusable reserves			
Is the analysis of unusable reserves consistent with other disclosure notes, balance sheet and MiRS?			
Cash flow notes			
Are cash flow notes consistent with other disclosure notes and balance sheet movements?			
Expenditure and Funding Analysis (EFA)			
Is EFA consistent with CIES?			
Do EFA notes and subjective analysis reconcile to each other and to the EFA and CIES?			
Grant income			
Is the grant income analysis consistent with the CIES and other info in the accounts?			
Leases, service concessions and PFI schemes			
Do leasing and service concession notes disclosure balance sheet liability and total of future payments due under the contract analysed between type of payment and date due (within five year bands)?			
Pensions			
Do pension liabilities = movement between opening and closing pensions reserve?			
Has the statutory override for IAS 19 *Employee Benefits* been included as part of the MiRS adjustments?			

APPENDIX E: KEY TASKS FOR CHIEF FINANCE OFFICERS

Setting materiality:

- Confirm the basis for materiality calculations and the key factors to be taken into account
- Agree materiality and trivial item thresholds

Accounting policies

- Confirm use of discretion in areas permitted by the Code e.g. depreciation rates
- Identify any areas where Code requirements are not being met
- Ensure accounting policies cover all material transactions and balances but do not include policies on items which are not material (or not relevant to the authority)
- Ensure accounting policies are clear, not over-elaborate, and exclude details of accounting “mechanics”
- Ensure any acronyms used have been explained
- Seek early approval of accounting policies by Those Charged with Governance

Critical judgements and key accounting estimates

- Ensure all relevant items have been identified
- Confirm basis of calculation and sensitivity analysis applied
- Ensure all expert advice and valuation reports have been correctly commissioned and meets audit requirements
- Ensure the scope and content of all advice received from third parties is clearly understood

Closedown planning

- Review and approve closedown plan and project management arrangements
- Ensure all key tasks have been identified and staff have received appropriate training
- Support initiatives to improve the quality of working papers and audit trail
- Consider and address any resourcing issues

Closedown monitoring

- Attend monitoring meetings and reinforce the importance of achieving deadlines
- Take early action to address backlogs and slippage as it occurs
- Prioritise closedown work between 1 April and audit sign off
- Provide strategic steer on contentious issues as required

Audit trail and working papers

- Complete or at least review, the overall check on additions, cross-referencing and consistency.
- Sample check other working papers to confirm
  1) adequacy of audit trail
  2) consistency with draft accounts

Liaison with external audit

- Discuss any proposed changes to the accounts or potentially significant issues as soon as identified
- Attend meetings with auditors to agree timing of onsite work and working paper requirements
- Attend meetings to discuss audit findings, draft audit reports and any potential adjustments required
- Ensure processes are in place to deal with audit queries and requests for further information promptly
- Agree timescales for completion of audit work and sign off following receipt of amended accounts