

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 8
<b>21 MARCH 2016</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton		
Contact Officer(s):	John Harrison, Corporate Director: Resources	☎ 452520	
	Steven Pilsworth, Service Director Financial Services	☎ 384564	

## ACCOUNTS & AUDIT REGULATIONS 2015

R E C O M M E N D A T I O N S	
<b>FROM :</b> John Harrison, Corporate Director: Resources	<b>Deadline date :</b> NA
<p>The Audit Committee is asked to:-</p> <ol style="list-style-type: none"> <li>Note the impacts of the Audit and Accounts Regulations 2015 as set out in section 4.</li> <li>Consider and approve the recommended approach to adjusting the Work Programme and meeting dates as result of the change in regulations.</li> </ol>	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee by the Council's Section 151 Officer, the Corporate Director: Resources, being part of his statutory responsibilities.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The Accounts and Audit Regulations 2015 were laid before parliament on 17 February 2015 and came into force on 1 April 2015. This report will update the Committee on the changes contained within the regulations, in particular with respect to its Work Programme for 2017/18 and beyond.
- 2.2 This is in accordance with the Committees' Terms of Reference –
- 2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance; and
- 2.2.1.18 To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

### 3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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### 4. ACCOUNTS AND AUDIT REGULATIONS 2015

#### BACKGROUND

- 4.1 The Accounts and Audit Regulations contain provisions on internal control and detailed rules about the preparation, approval and publication of the annual statement of accounts, and about the arrangements for local electors and other interested persons to exercise their rights of inspection, objection and to question the local auditor.

- 4.2 The 2011 Regulations have been revoked and replaced by the Accounts and Audit Regulations 2015, which are required in order to implement the new local audit arrangements set out in the Local Audit and Accountability Act 2014.
- 4.3 The 2015 Regulations come into force on 1 April 2015, so the provisions largely apply in relation to financial years beginning on, or after, 1 April 2015 (i.e. with effect from the 2015/16 financial year), other than where transitional arrangements permit a later application of the requirements until financial years beginning on or after 1 April 2017 as noted in the sections below.
- 4.4 The Regulations include provisions in respect of both Category 1 authorities (i.e. authorities with annual income and expenditure in excess of £6.5m per annum and those with a turnover below this threshold who nevertheless elect to have a full audit) and Category 2 authorities (any authority not meeting the definition of a category 1 authority). The following paragraphs only focus on the regulatory requirements for Category 1 authorities as this is the category into which Peterborough City Council falls.
- 4.5 The Government is of the view that earlier publication of the Statement of Accounts will improve local government transparency and accountability and that it will increase public interest in local authority accounts, especially when coupled with moves to simplify accounting statements and to introduce a common public inspection period. By giving three year's notice of these changes the Government believes it is providing authorities and auditors with reasonable timescales to adjust.

#### **Internal Control**

- 4.6 The general duties in relation to internal control have been recast to bring them closer to corporate governance requirements in the private sector and elsewhere within the public sector. The role of the Internal Auditor is also restated, to follow modern standards.

#### **Narrative Statement**

- 4.9 The regulations require a narrative statement to be published alongside the Statement of Accounts. In practice this will form part of the same document and replace the explanatory foreword. The narrative statement should include comment by the Council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.
- 4.10 CIPFA have issued interim guidance on the content of the statement and it is anticipated that additional detailed guidance will be available to inform the drafting of the 2015/16 Statement of Accounts. It is expected that requirements will be met by elements of the Council's current explanatory foreword, supplemented by some additional content currently contained in the outturn report.

#### **Public inspection of accounts**

- 4.4 The period of public inspection for the Council's accounts and supporting documentation has increased from 20 to 30 working days and runs concurrently with the period whereby a local government elector may raise questions or objections to the External Auditor.
- 4.5 This period must contain the first 10 working days in July (June from 2017/18) and the Accounts may not be authorised for issue until this period has ended. These timeframes are summarised in the following table.

<b>Year of Account</b>	<b>10 day common period</b>
2015/16 and 2016/17	First 10 working days in July
2017/18 and subsequent years	First 10 working days in June

- 4.6 In line with these provisions, the Council will be required to publish:

- The draft Statement of Accounts, together with a statement signed by the Corporate Director: Resources (as the Council's Chief Finance Officer) to the effect that the accounts are unaudited and that the accounts may be subject to change.
  - The Annual Governance Statement.
  - The Narrative Statement (as referred to above).
  - A statement that sets out the period for the exercise of public rights, details of the manner in which notice should be given of an intention to inspect the accounting records and other documents, the name and address of the local auditor and details of the provisions regarding inspection of documents and rights to make objections at audit.
- 4.7 For 2015/16 the aim is to publish the draft Statement of Accounts and statement on 30 June 2016 and thereby commence the period of inspection.

#### **Earlier publication of accounts.**

- 4.11 The most notable change introduced by the regulations is a reduction in the timescales for publishing draft and audited accounts. The implementation of this change is delayed until 2017/18 accounts. The current and new deadlines are set out in the table below.

<b>Activity</b>	<b>Current deadline</b>	<b>New deadline</b>	<b>Reduction in time</b>
<p><b>Draft Accounts</b></p> <p>Deadline for the Corporate Director Resources (as the Council's Chief Finance Officer) to sign and date the Statement of Accounts and confirm that it presents a true and fair view of:</p> <ul style="list-style-type: none"> <li>• The financial position of the Council at the end of the financial year to which it relates; and</li> <li>• The Council's income and expenditure for that year.</li> </ul>	30 June	31 May	30 days
<p><b>Audited Accounts</b></p> <p>Deadline for:</p> <ul style="list-style-type: none"> <li>• Approval of the Statement of Accounts by resolution by the Audit Committee;</li> <li>• Certification of the Statement of Accounts by the Audit Committee Chairman;</li> <li>• Re-certification of the Statement of Accounts by the Corporate Director: Resources;</li> <li>• Publication of the Statement of Accounts.</li> </ul>	30 September	31 July	62 days
<b>Available Audit Time</b>	92 days	61 days	31 days

- 4.12 The regulatory requirement to adhere to the new deadlines will be extremely challenging, both for councils and their local auditors. Officers are already implementing plans to assist with the earlier closure timescale, and discussions are ongoing with the external auditors in regards to completion of a timely audit. For example the revised deadline for auditing the accounts is requiring external auditors to change the way Local Government audits are conducted, which in turn will mean a lot more audit work being undertaken at the interim audit stage. As a result the interim audits are likely to take place between October and December, instead of February to April as is currently the case.

- 4.13 These changes mean that the current timings of Audit Committee meetings will need to be reviewed in order to meet the revised timescales and activity requirements noted in the table above.
- 4.14 Whilst under the old regulations the Council's Audit Committee was no longer required to approve the accounts prior to audit, the Council considers it is good practice for members to review and comment on the accounts prior to the Chief Financial Officer's (CFO) certification so the Statement of Accounts are on the work programme for June audit committee.
- 4.15 For 2017/18 accounts, the deadline for issuing draft accounts will be seven working days after the expected date that the membership of the Committee will be agreed. This timing suggests that the time required to train new members and for Committee to consider and comment on the accounts prior to CFO certification to be tight.
- 4.16 It is therefore proposed that an Audit Committee meeting is held in early June to receive and comment on the accounts whilst the public inspection period and audit are underway. This meeting would also receive the outturn report.
- 4.17 A meeting could then be held towards the end of July to receive and formally approve the accounts in line with the new statutory deadline.
- 4.18 The changes will be likely to have an impact on other related work items which will have to go to a different committee than they currently do. For example both the Annual Audit letter and the draft external audit plan may be available to go to a meeting earlier in the calendar. These will need to be reviewed as a clearer picture emerges.

## **5. CONSULTATION**

Discussion has taken place between Finance and Member Services around the implications of the new regulations and possible responses.

## **6. ANTICIPATED OUTCOMES**

An agreed approach to future Work Programme and meeting scheduling.

## **7. REASONS FOR RECOMMENDATIONS**

The changes recommended ensure that the Council is able to continue to meet its changing statutory obligations.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

The Accounts and Audit Regulations govern the arrangements for preparation, approval and publication of the Statement of Accounts. The Statement of Accounts summarise the financial performance and financial position for the Council. As such, they provide a financial representation of activities against the Medium Term Financial Strategy.

## **9. IMPLICATIONS**

- 9.1 The 2015 Regulations introduce changes to the rules governing the preparation, approval and publication of financial performance information. An inability to comply with these Regulations could damage the Council's reputation and financial standing.
- 9.2 The purpose of this report is to explain the regulatory changes that have been made on internal control and the detailed rules about the preparation, approval and publication of the annual statement of accounts, and about the arrangements for local electors and other

interested persons exercise their rights of inspection, objection and to question the local auditor.

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- The Accounts & Audit Regulations 2015
- Local Audit and Accountability Act 2014
- The Accounts and Audit (England) Regulations 2011
- Audit Commission Act 1998
- Council Constitution
- Accelerating your financial close arrangements, EY Think Piece.

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