

**HERTFORDSHIRE COUNTY COUNCIL  
AUDIT COMMITTEE  
WEDNESDAY 23 MARCH 2016 AT 10.00 am**

**REPORT ON PREPARATION FOR THE 2015/16 ACCOUNTS**

Report of the Assistant Director - Finance

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**1. Purpose of the Report**

- 1.1 To update the Committee on actions taken in preparation for the 2015/16 Statement of Accounts.

**2. Summary**

- 2.1 Ernst Young LLP (EY) issued an unqualified opinion on the 2014/15 accounts, and made no specific recommendations. As reported in November, a number of actions are under way to ensure the 2015/16 accounts and audit achieve the same high standards, and to address new requirements. This report provides an update of progress against these actions.

**3. Recommendations**

- 3.1 The Committee is invited to note and comment upon this report.

**4. Actions to prepare for 2015/16 and subsequent audits**

4.1 Staff Training and Preparation for 2015/16 Closure

Herts Finance has undertaken a review of the accounts closure and audit process, identifying further opportunities for more efficient coordination of information and use of reporting, and ensuring that key processes are maintained effectively throughout the year, to minimise additional work at year end.

The results of the “lessons learned” exercise undertaken in autumn 2015 have been reviewed, and processes and the published timetable for 2015/16 closure have been adapted accordingly. Template working papers have been revised to further streamline processing. A training session for all Finance staff has been held, supplemented by updated training resources on Compass and briefings for individual teams. A further training session, to be delivered by CIPFA in March 2016, has been organised jointly with Districts.

4.2 Vehicle, Plant and Equipment Assets

No errors were found in 2014/15 Audit testing of entries in our vehicle, plant and equipment asset records and following several years of Officers reviewing asset records, this issue has been removed as a significant risk on the 15/16 audit plan.

However, given previous issues this continues to be recognised as an area that officers need to review. In 2015/16, Officers have completed work on verifying school equipment over 5 years old, and are working with schools to update records when assets are disposed of, using notifications through the interim and final schools capital returns. Officers have continued to review non-school assets on a risk based approach.

#### 4.3 Highways Expenditure

The ARR stated that, whilst the final payment due for works carried out in 2014/15 had not yet been agreed with the contractor, the auditors were satisfied that highways expenditure in the 2014/15 accounts was not “materially misstated”. The settlement of the contractor’s claim for final payment, including several compensation event claims, is still to be confirmed but is reaching conclusion.

Work to implement and embed the recommendations made in the Internal Audit report on Highways has continued throughout the year. This will ensure that the final 2015/16 position on Highways expenditure is robust.

#### 4.4 Transport Infrastructure Assets Code/Highways Network Assets

New requirements for the valuation and reporting of transport infrastructure assets will be introduced from 2016/17. While tools and guidance to implement the Highways Network Asset Code (previously called the Transport Infrastructure Asset Code) are still under development nationally, the Council is in a good position as it has officer representation on the Highways Asset Management Finance Information Group, which is working with CIPFA and the Department of Transport on the implementation of the Code. Officers in Herts Finance are receiving training, developing a project plan for implementation and have engaged with the external auditors.

#### 4.5 Early Closure of Accounts

As reported in November, officers have reviewed year-end processes to prepare for early closure from 2017/18, liaising with our external auditors EY and reviewing best practice elsewhere, including through a working group with our District Councils.

A project plan continues to be worked on; officers have identified critical paths and dependencies as part of the preparation for producing the 2015/16 draft accounts, and will use this year to test new approaches. The accruals process, including the value of de-minimis levels, has been reviewed and discussions are ongoing with our external auditors with respect to introducing new levels. We have also worked with our Actuary and have agreed revised processes to ensure earlier delivery of information required for the accounts. This approach has also been agreed with audit.

Officers will use 2015/16 to test the impact of the new approach; and issues will be identified and resolved before undertaking a full dry run in 2016/17, to deliver draft accounts by 31 May.

#### 4.6 Accounting Policies

Officers have also reviewed the Accounting Policies to ensure these remain compliant with relevant accounting standards, and that accounting practice in preparing the accounts is aligned with policies. The adoption of accounting standard IFRS 13 has introduced some changes to the valuation of surplus assets, investment properties and assets held for sale, and financial instruments. Additional disclosures are now required to enable the reader of the accounts to evaluate the valuation techniques and inputs to arrive at the fair value. Whilst some of the terminology has changed, this will have little impact on the calculation of fair values for financial instruments and the methods used in previous financial years. For property, the biggest impact will be on surplus assets where they are now required to be valued at best and highest market value rather than existing use value. Officers are working with our external valuers to ensure these changes are in place for year end.

No other changes are required for 2015/16.

#### 4.7 Other Areas

The Audit Letter highlights the Better Care Fund as a significant initiative in 2015/16, with the Council hosting budgets of approximately £230m in partnership with East & North Herts, Herts Valleys and Cambridgeshire and Peterborough CCG's. Reporting arrangements are in progress with the CCG's, and performance is being monitored by the Health & Wellbeing Board. Discussions have been held with external audit on the correct presentation of this spending in the accounts.

There are some changes arising from the Accounts and Audit Regulations 2015. The public inspection period (when members of the public can raise queries on the accounts and inspect the underlying records) has increased from 20 to 30 working days, and must include the first 10 working days in July, to facilitate comparisons between authorities. The period for raising queries with the auditor is now incorporated within the public inspection period, rather than following it.

The regulations also require a Narrative Report to replace the Explanatory Foreword to the accounts. This statement must comment on the authority's financial and non-financial performance and economy, efficiency and effectiveness in its use of resource over the financial year.

### **5. Financial Implications**

5.1 There are no additional financial implications.