

Divisions Affected - ALL

## **AUDIT AND GOVERNANCE COMMITTEE - 17 NOVEMBER 2021**

### **UPDATE ON CLOSURE OF ACCOUNTS FOR 2021/2022 – IFRS 16 AND VALUATIONS**

**Report by Lorna Baxter, Director of Finance**

#### **RECOMMENDATION**

1. **The Audit and Governance Committee is RECOMMENDED to note the content of the report.**

#### **Executive Summary**

2. There are two major pieces of work that are underway currently so that they can be incorporated into the closure of the Council's 2021/22 accounts and provide opening balances on the Balance Sheet as at 1 April 2022. This report provides an update on this.
3. The first piece of work relates to the introduction of the International Financial Reporting Standard (IFRS) 16 lease accounting. The standard was published in January 2016 and became effective from 1 January 2019 in the private sector. However, its implementation has been delayed in the public sector for various reasons, one being the impact of COVID-19. It is now to be implemented for the financial year 2022/23 in the public sector. There will be a significant change for the council as it will result in large increase in the level assets and in the level of debt shown on the Council's Balance Sheet. The increase in both will be for assets that the Council is already using but that have previously been classified as Operational Leases 'off Balance Sheet'. These have previously only been reported in the notes to the accounts (correctly as required).
4. The new IFRS 16 standard aims to have one single lessee accounting model that results in more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency for the reader of the accounts.
5. The work that needs to be completed for this is to identify all the assets that will be included on the Balance Sheet and to establish opening values for these assets.

6. The second piece of work that is underway is the preparatory work that needs to be undertaken to obtain values of the Council's non-current assets as at 31 March 2022.

## **IFRS 16**

7. As the introduction of IFRS16 was due a couple of years ago, but then got postponed, a lot of the preparatory work was done at the time so as to be ready for the original date of introduction. The work being done now is a review of the original working papers to check that all the assets are still being used and then to identify any additional assets that need to be included. The next step will be to review the values of the assets and then update them to current values. The final step will be to map out the accounting entries required in the accounts and these can be found in CIPFA's Accounting Code of Practice for 2021/22. In addition to this a procedural note needs to be written for other officers to follow in the future.
8. It is planned to complete this work before the end of the financial year 2021/22. This is so that if the external auditors want to review the work as part of the audit of the accounts for 2021/22 it will have all been completed and ready for review. A review by the external auditors prior to implementation in 2022/23 will provide assurance to the Council that it has been done correctly.

## **ANNUAL VALUATION OF THE COUNCIL'S NON-CURRENT ASSETS**

9. The second task which forms a significant part of the closure of the Council's accounts is the annual valuation of the Council's non-current assets. Prior to 2018/19 the Council had an accounting policy of valuing its different classes of non-current assets in a 5-year rolling programme. In 2018/19 the Council changed the accounting policy to valuing all the non-current assets in a 3-year rolling programme. This was in response to discussions with the external auditor who believed it would give a more up to date and accurate value of the non-current assets in the intervening years between valuations.
10. The consequence of this is that there are a lot more valuations that need to be carried out each year. As there has been a limited number of staff who are appropriately qualified to carry out this work in-house some of the valuation work has been outsourced. The contract for this work needs to be reprocurd and the Senior Estates Surveyor has begun this process. He will then work closely with the successful contractor to agree on the outcomes needed and the timeframe for providing these. It is acknowledged that it is critical that the valuation reports from the contractor are correct when received and that they are provided within the agreed timeframe. A failure to deliver either accurate valuations or on time will cause delays in the overall closedown process and will result in the external auditors spending more time carrying out the audit. This will potentially result in additional audit fees for the council.
11. The timetable for completion of the valuation work is shown below.

<b>Deadline/Timeframe</b>	<b>Activity</b>
Valuers appointed by mid-December 2021	Procurement exercise undertaken to appoint external valuers. Specification to include working with the external auditors and responding to their queries during the audit of our accounts and pricing should allow for this.
Mid-December to end of December	Discussion with valuers to agree list of valuations, work required and deadline for receipt of complete and accurate report.
January & February	Valuation work undertaken and reports sent to the Council on a rolling basis when completed.
31 March 2022	Receipt of final valuation reports
January - April	Input of valuations into the financial management system
Summer/Autumn 2022	Working with the external auditors and responding to their queries

12. The successful completion of all the valuation work and subsequent closedown work, that is required as part of the closure of the Council's accounts within the closedown timetable deadlines, will require a collaborative working approach from the external valuers, the Senior Estates Officer and the Finance Officers, who have responsibility for this area of the closedown process. This approach has worked well in the past and it is not envisaged that there will be any issue with this for the valuation of assets for 2021/22.

## **Financial Implications**

13. There are no financial implications arising directly from the contents of this report. However, if there is a failure to deliver on implementing IFRS 16 properly or to obtain accurate valuations or in a timely manner, then there may be an impact on the cost of External Audit and the level of resource required within the finance team.
14. This document has been checked for accessibility and no issues were found.

Comments checked by: Tina Stankley, Interim Chief Accountant

## **Legal Implications**

15. There are no legal implications arising directly from the contents of this report. The Council does have statutory deadlines for producing its accounts each year. The Council will need to ensure that arrangements are put in place to comply with any amendments to the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 (latest amendment in 2021) and statutory guidance, including the Code of Practice on Local Authority Accounting in England and Wales.

Comments checked by: Sukdave Ghuman  
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## **Staff Implications**

16. There are no staffing implications arising from the content of this report. The work that is being undertaken will form part of the annual closure of accounts process.

## **Equality & Inclusion Implications**

17. There are no equality and inclusion implications arising directly from the contents of this report.

## **Sustainability Implications**

18. There are no sustainability implications arising directly from the contents of this report.

## **Risk Management**

19. There are risks associated with a failure in not implementing IFRS 16 properly and in not obtaining accurate valuations of the Council's non-current assets or if they are not received on time. The likely outcome would be a failure to publish the accounts within the statutory timeframe. The risks can be mitigated by ensuring that there are adequate resources and suitably qualified staff to close the accounts and that the closure is fully planned and timetabled.

**LORNA BAXTER,**  
Director of Finance

Annex: None

Background papers: None

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