

AUDIT COMMITTEE: 14 MARCH 2017

**STATEMENT OF ACCOUNTS 2016/17 – ACCOUNTING POLICIES AND
FUTURE REGULATORY CHANGES**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.2

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for reviewing the financial statements prepared by the authority.
2. This report has been prepared to provide Audit Committee Members with:-
 - A. The draft accounting policies on which the Statement of Accounts for 2016/17 will be based, along with the key areas in the accounts where estimates and assumptions are used in preparation of the accounts.
 - B. The key changes arising to the 2016/17 CIPFA Code of Practice (the Code).
 - C. Information highlighting Code updates beyond 2016/17 that are likely to have the most impact on the accounts.
 - D. The key changes proposed in a Welsh Government (WG) consultation on Accounts and Audit Regulations.

Background

3. Councils are required to prepare the Accounts using a Code of Practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) under the oversight of the Financial Reporting Advisory Board. The Code is based on International Financial Reporting Standards (IFRSs) and sets out the minimum requirements for financial statements of the Council.

The Council's Statement of Accounts for 2015/16 was considered by Audit Committee in June and September 2016. It is a technical document, which relies on information received from many Directorates; relies on technical expertise and capacity in order to meet tight timescales for preparation, makes previously recommended improvements, and supports the external audit. Preparation and audit of the accounts needs to consider the significant assumptions required and materiality of their impact in determining the performance of the Council to its Council Tax and Rent Payers.

During 2015, CIPFA undertook a consultation ('Telling the Story'), which aimed to review non-essential items included within Local Authority Statement of Accounts

and better explain the financial statements. Attached at Appendix 1 is a guide produced by CIPFA on Understanding Local Authority Financial Statements, which may be useful information to members.

During 2015/16, the Council worked with Wales Audit Office (WAO) to improve a number of areas and this process of improvement will continue, including considering materiality of transactions, simplifying wording, removing or adding narrative where this better explains the Councils performance or figures included in the accounts.

4. Whilst there are a number of changes proposed in the latest Code, this report will focus on the key accounting changes that will impact upon the Council's accounts.

Draft Accounting Policies 2016/17 and Assumptions

5. The Council's draft 2016/17 accounting policies is included, at Appendix 2. Apart from minor changes in wording or removal of immaterial policies, no significant changes in the policies are made that would impact on the reporting of financial performance historically or in the future. Such proposed amendments have been considered and agreed with Wales Audit Office. A summary of the main changes is shown below:

Page	Policy Number	Accounting policy	Change
1	1	Accounting policies issued but not yet adopted	First sentence in the second paragraph removed and minor wording amendments. Final paragraph removed as not applicable.
3	7	Defined Benefit Schemes	The definition previously included has been removed, as this is included in the Glossary. Wording in this policy has been changed to reflect wording and format in the Code, as well as trying to make it easier to understand.
4	7	Defined Contribution Schemes	The definition previously included has been removed, as this is included in the Glossary.
N/A	N/A	Foreign Currency Transaction	Previously the policy was included in the accounting policies but has been removed, as the amounts included in the Council's accounts are not material.
9	20	Non-Current Assets Held for Sale	Simplification of the wording where Assets Held for Sale are required to be reclassified.
9	21	Overhead and Support Services Costs	Due to the changes to the 2016/17 Code discussed further in this document, which allows the Council to report their net cost of services based on the same reporting structure as for monitoring. The previous reporting policy has been deleted and wording amended to reflect the change.
9	22	Prior Period Adjustments	No change to the wording but order of the paragraphs moved around and bullet points deleted.
9	23	Property, Plant,	Tidying up of the wording in the bullet points –

Page	Policy Number	Accounting policy	Change
		Equipment, Community and Heritage Assets	in the main deleting wording that is not needed. Movement of some of the information to the revaluation heading where relevant.

6. The changes to the Code mean that authorities are allowed to report their service segments based on the way in which they operate and manage services, rather than using the service expenditure analysis which is prescribed in the Service reporting Code of Practice.
7. The Council is required to highlight areas of the accounts where assumptions and estimates have to be made. e.g. in the valuation of fixed assets. Whilst changes in assumptions and different assumptions could have a significant impact on the values included in the accounts, such valuations are purely an accounting exercise and changes which have no impact on the level of Council Tax / Rent payable, as they are required to be reversed. The significant assumptions to be made remain largely unchanged from the previous audited accounts and are shown in Appendix 3.

Changes in the 2016/17 Code

8. The most significant changes within the 2016/17 Code are:-
9. The Comprehensive Income and Expenditure Statement (CIES) shows the income and expenditure on the authority's services in one financial year in accordance with generally accepted accounting principles. The changes to the Code mean that authorities are allowed to report their service segments based on the way in which they operate and manage services, rather than using the service expenditure analysis which is prescribed in the Service reporting Code of Practice. This format should be more meaningful for both local authority members and ordinary users of local authority financial statements, as it follows budget and performance monitoring. Although, it does mean that comparison of the individual lines that make up the net cost of services in the Statement of Accounts between different authorities will not be possible.
10. There is the introduction of a new note - Expenditure and Funding Analysis (EFA) which will show how annual expenditure is used and funded from resources. It will provide a reconciliation between the net expenditure that is chargeable to taxation and rents and the Surplus or Deficit on Provision of Services in the CIES. This should provide users with a clear link between the way information is provided for performance and monitoring purposes and the statutory adjustments including capital charges and pension adjustments required to be applied to the accounts to ensure the figures are compliant with the Code.
11. Movement in Reserves Statement (MiRS) shows the movement from the start of the year to the end for the different reserves held by the authority. The reporting requirements have been reduced to an absolute minimum, to make it more understandable to users of local authority financial statements.

12. The changes to the CIES and the new EFA will require restatement of the previous financial year 2015/16.

Future potential changes to the Code 2017/18 onwards, subject to outcome of consultation

13. The 2016/17 Code includes confirmation of changes to forthcoming editions of the Code. These changes are likely to require significant additional workload on the part of the local authority finance function and directorates at a time of significant financial pressure. Consideration of the cost and benefit of all changes will need to be undertaken as part of implementation particularly in respect of the materiality of the impact of the requirements.

Highway Network Infrastructure Asset

14. Audit Committee on the 22 March 2016 received a report on proposed changes in the Code for accounting and reporting of Highway Network Assets as well as the reasons and potential impact of the changes.
15. The Highway Network Infrastructure Asset includes land, carriageways, footways, cycle tracks, structures, street lighting, street furniture and traffic management systems. It is the most valuable asset that the Council holds and operates, in terms of replacement cost. However, local authority accounts do not currently reflect the true value of the asset, its condition, its cost in providing services or the implications of not maintaining it in the short and long term.
16. The Accounting changes will require such assets to be measured at Depreciated Replacement Cost (DRC), rather than Depreciated Historic Cost (DHC), and will also be disclosed separately on the balance sheet. The move to DRC will significantly change the balance sheet and increase depreciation charges to the CIES. There would be no requirement to restate previous years accounts.
17. Whilst this change was planned for implementation in the 2016/17 accounts, at its meeting on 9 November 2016, CIPFA/LASAAC decided to postpone the full implementation of Highways Network Asset for 2016/17. This was due to the provision of central Gross Replacement Cost (GRC) rates including land values not being available in a timely manner to allow successful implementation. CIPFA will be reviewing its decision in March 2017, with a view to earliest implementation being in 2017/18.

Other proposed 2017/18 changes

- A new principles based approach to narrative reporting. This is with a view to explaining in a more effective way the financial and non financial performance of the Council and its position at year end.

2018/19 proposed changes

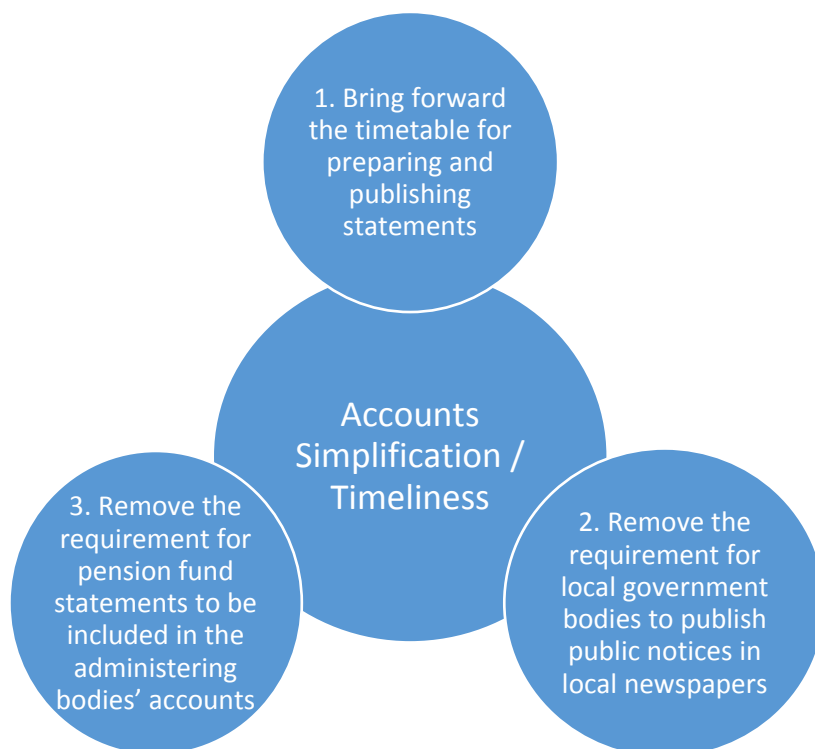
- IFRS 9 Financial Instruments the key impact on the authority would be the change in the valuation of Cardiff Bus.

2019/20 changes

- IFRS 16 Leases – eliminates operating and finance lease classification for lessees.

Accounts and Audit Regulations Consultation (Nov 2016)

18. Between 14 November 2016 and 6 February 2017, the WG have been consulting on proposed changes to the Accounts and Audit Regulations that would apply to Local Government Bodies.



19. The Welsh Government proposes bringing forward the timetable for preparing, auditing and publishing the statements of accounts. The aim is to:-
- bring them into line with other parts of the public sector
 - enhance the accountability of authorities and the usefulness / timeliness of accounts to local residents
 - assist larger relevant bodies' own financial management by providing earlier assurance of the previous year's financial outturn
 - free up finance staff time to look at in-year issues, rather than spending a significant part of the year considering the preparation and support for audit of the previous financial year

The table below shows the proposed timetable from November 2016 consultation.

	Accounts	2016-17	2017-18	2018-19	2019-20	2020-21
22 county and county borough councils & their committees	Prepare and sign by S151	30 June	30 June	15 June	15 June	31 May
	Publish following audit and Council approval	30 Sept	30 Sept	15 Sept	15 Sept	31 July

20. The Council supports the change, whilst recognising the impact on its own staff and external parties from whom information is required for its preparation. The Council currently aims to provide a Statement of Accounts for audit on 15 June. Consideration of changes in process to bring forward the Council's preparation timetable by at least two weeks will need to take place.
21. The significant impact will be on the external audit of the accounts which will require a significant change in approach to audit. To address these concerns a phased approach is proposed to allow WAO to make adequate provision for the revised timetable through its business planning processes. Any such revised approach will also need to take into account materiality and also the impact on local authority resources.
22. Larger relevant bodies are currently required to publish a notice by advertisement in one or more local newspapers circulating in the area of the body concerned stating when their accounts are available for public inspection. Given the wide variety of media for notifying the public of this opportunity, the Council agrees that this would be a sensible change.
23. This proposal would remove the requirement to include the Pension Fund statements in the Statement of Accounts of the administering body. The proposal is to include the Pension Fund Accounts within the *Annual Report* document which is currently required to be published by 1 December each year. Administering authorities could align this timetable with the main administering authority statements if they chose to do so. This would take place from 2017/18 and whilst the change is welcomed in reducing the volume of the Council's Statement of Accounts, the considerations of earlier preparation and audit are also likely to apply if the benefits of simplification and timeliness are also to apply to users of the funds accounts.

Reasons for Recommendations

24. To ensure the Audit Committee are aware of the implications of accounting policy and regulatory changes on the Council's Statement of Accounts.

Legal Implications

25. There are no direct legal implications as a result of this report.

Financial Implications

26. There are no direct financial implications as a result of this report.

Recommendations

27. That the draft accounting policies and assumptions be noted
28. That the update in respect of changes to future years accounts be noted

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
01 MARCH 2017**

The following Appendices are attached:

Appendix 1 – CIPFA Guide – Understanding Local Authority Financial Statements

Appendix 2 – Draft Accounting Policies 2016/17

Appendix 3 – Draft Assumptions and estimates in preparing the Accounts