

AUDIT COMMITTEE:

2 April 2019

**STATEMENT OF ACCOUNTS 2018/19 – TIMESCALES, ACCOUNTING
POLICIES AND FUTURE REGULATORY CHANGES**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.2

Reason for this Report

1. The Audit Committee terms of reference set out the responsibility for reviewing the financial statements prepared by the authority.
2. This report has been prepared to provide Audit Committee Members with:-
 - A. Proposed timescales for the 2018/19 statements
 - B. The draft accounting policies on which the Statement of Accounts for 2018/19 will be based, along with the key areas in the accounts where estimates and assumptions are used in preparation of the accounts.
 - C. The key changes expected to be implemented for the 2018/19 accounts arising from the 2018/19 CIPFA Code of Practice (the Code)
 - D. Significant changes in 2019/20 and beyond that are likely to have the most impact on the accounts.

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). The Code is based on International Financial Reporting Standards (IFRSs) and sets out the minimum requirements for financial statements.
4. The Council's Statement of Accounts 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 and makes previously recommended improvements. Preparation and audit of the accounts needs to consider the significant assumptions required and materiality of their impact to users of the accounts.
5. The Council continues to work closely with Wales Audit Office (WAO) on a process of continual improvement, including considering materiality of transactions, simplifying wording, removing or adding narrative where this better explains the Councils performance or figures included in the accounts.

6. A guide produced by CIPFA on Understanding Local Authority Financial Statements, which may be useful information to members of the Committee to support their role is attached at Appendix 1.

A. Proposed timescales for the 2018/19 statements

7. The proposed timescales in relation to the 2018/19 accounts are shown in the table below:-

Date (Last Working Day)	Item
From 7 June 2019 onwards	Submission of draft accounts for external audit
14 June 2019	Draft Statement of Accounts signed off by Corporate Director Resources
18 June 2019	Draft Statement of Accounts available for Audit Committee review and open for public inspection for 20 working days
25 June 2019	Draft Statement of Accounts presented to Audit Committee meeting
15 July 2019	Public inspection ends
1 August 2019	Receipt of all external audit queries
10 September 2019 (TBC)	Draft audited accounts presented to Audit Committee
12 September 2019 (TBC)	Final audited accounts and accompanying disclosures presented to Full Council for approval and sign off
13 September 2019	Publication of Statement of Accounts

8. As well as the current process where Audit Committee can raise queries with officers on receipt of the accounts at Audit Committee, it is proposed to develop and trial a process whereby Committee would have the opportunity to scrutinise the accounts, over a longer period, in accordance with their terms of reference. It is proposed that queries to the auditors or officers could be made up to and including 15 July 2019 in line with the period of public inspection. Officers would consider any comments and questions in relation to the committee's terms of reference in relation to the accounts and provide a response to Audit Committee as to the outcome of the issues raised.

B - Draft Accounting Policies 2018/19 and Significant Assumptions used in the Accounts

9. The Council's draft 2018/19 accounting policies are included, at Appendix 2. CIPFA continues to encourage Councils to streamline wording and the content of accounting policies, some of which may have been in place for a number of years. We continue to do so in the draft however there are no changes made that would impact on the reporting of financial performance historically or in the future. A summary of the main amendments to the policies are shown below:

Accounting Policies Section	Change
General Principles	<ul style="list-style-type: none"> • Improved readability including removal of technical terms, where not relevant. • Relocation of definitions to the glossary section. • Removal of standards that are not applicable or do not have a material impact on the Council's financial reporting.
Financial Instruments	Updated with requirements of Code of Practice
Property, Plant & Equipment	Use of tabular format rather than a narrative format.
Accounting standards issued but not yet adopted	Updated for items to be included in future Codes of Practice

10. The Council is also required to highlight areas of the accounts where assumptions and estimates have to be made e.g. in the valuation of fixed assets. The proposed significant assumptions used in 2018/19 for disclosure in the accounts are included in Appendix 3 and remain unchanged from previous years. Changes in some assumptions could have a significant impact on the values included in the accounts, but are often purely an accounting exercise and have no impact on the level of council tax and rent payable, as they are required to be reversed.
11. Amendments to the draft accounting policies and assumptions have been considered and agreed with Wales Audit Office. However, it should be noted that there may be further changes following the audit and as there is further guidance issued by CIPFA, for example, in relation to Financial Instruments.

C – Key changes in the 2018/19 Code

12. The main changes in the 2018/19 code issued by CIPFA relate to the treatment of:
- Financial Instruments - Presentation, disclosure and treatment of gains and losses
 - Timing of revenue recognition from contracts
13. The council is assessing the impact of these changes. However initial reviews indicate that these are not deemed to have a material impact on the accounts or financial performance.

D - Significant changes from 2019/20 onwards

Code of Practice

14. Looking further ahead to 2020/21, the Code will incorporate the requirements of International Financial Reporting Standard 16 – Leases. This will remove the existing classification of operating and finance leases covering buildings, equipment etc. and their different accounting treatments. It will require that all leases with a term over a year are recorded as assets and liabilities unless the underlying asset is of low value.
15. Whilst this is expected to have no direct financial impact, work will need to be undertaken to ensure existing lease type arrangements across the Council are identified, and accurately recorded. This will include a review of existing processes

and the creation of new processes for managing and recording existing and new lease arrangements.

Accounts and Audit Regulations

16. In accordance with revised regulations the Council is required to continue to bring forward timescales for the statement of accounts. These are shown in the table below:

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

17. In order to meet the timescales, the Council and any other bodies charged with governance will need to consider carefully the timing of meetings and potentially responsibility for approving them in the short term and longer term. This includes the timing of Council meetings to approve the accounts and also Audit Committee for scrutiny of the Accounts.

Reason for Recommendations

18. To inform Audit Committee of the key changes impacting on the Council's Statement of Accounts for 2018/19 and changes expected in the medium term.

Legal Implications

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

Financial Implications

20. The changes outlined in this report particularly beyond 2018/19 will continue to require additional workload on the part of the local authority finance function and directorates. Consideration of the cost and benefit of changes will need to be undertaken as part of a continuous process of improvement and implementation particularly in respect of materiality of requirements.

Recommendations

21. Audit Committee are requested to note:-
- The timescales proposed for the 2018/19 accounts
 - the draft accounting policies and assumptions to be used in preparing the statement of accounts for 2018/19
 - the key changes in the Code of Practice for 2018/19, and changes in the medium term

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
25 MARCH 2019

The following Appendices are attached:

Appendix 1 – CIPFA Guide – Understanding Local Authority Financial Statements

Appendix 2 – Draft Accounting Policies 2018/19

Appendix 3 – Draft significant assumptions and estimates used in preparing the Accounts