

**STATEMENT OF ACCOUNTS 2022/23 – TIMESCALES, ACCOUNTING
POLICIES AND FUTURE REGULATORY CHANGES**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7.2

Reason for this Report

1. The Governance & 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 Governance & Audit Committee Members with:-
 - A. Proposed timescales for the 2022/23 statements
 - B. The draft accounting policies on which the Statement of Accounts for 2022/23 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 2022/23 accounts arising from the 2022/23 CIPFA Code of Practice (the Code)
 - D. Factors impacting on the preparation of future Statement of 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 and relies on technical expertise and capacity in order to meet timescales for preparation. Attached for information, in Appendix 1, is a document introducing the contents and governance process involved in preparing the Council's financial statements. 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 also attached at Appendix 2.

5. Preparation and audit of the accounts needs to consider the significant assumptions required and materiality of their impact to users of the accounts.
6. The Council works closely with Audit Wales (AW) 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.

A - Proposed timescales for the 2022/23 statements

7. The 2022/23 statutory deadlines are shown in the table below. In the last three years, Welsh Government has continued to recognise resourcing issues in finalising local authority accounts, from preparation, through to external audit and final approval. Extensions to the statutory deadlines were introduced and it is expected that these will continue for 2022/23 pending a wider national review on future approaches.

Item	Statutory Deadline	Extended Deadlines
Draft Statement of Accounts	31 May 2023	31 August 2023
Audited Statement of Accounts	31 July 2023	30 November 2023

The proposed timescales in relation to the 2022/23 accounts are shown in the table below:

Date (Last Working Day)	Item
15 – 30 June 2023	Draft Statement of Accounts signed off by Corporate Director Resources and submitted for external audit.
5 July 2023 (TBC)	Draft Statement of Accounts available for Governance & Audit Committee review and start process of public inspection for 20 working days
5 July 2023 (TBC)	Receipt of Audit Wales Audit Plan
11 July 2023 (TBC)	Draft Statement of Accounts presented to Governance & Audit Committee meeting
31 October 2023	Receipt of all external audit queries – although completion of the external audit is subject to further information coming to light prior to approval by Council
October / November 2023 (subject to audit progress)	Audited accounts presented to Governance & Audit Committee
November 2023 (TBC)	Final audited accounts and accompanying disclosures presented to Full Council for approval
30 November 2023 (TBC)	Publication of Statement of Accounts

8. As well as the current process where Governance & Audit Committee can raise queries with officers on receipt of the accounts at Governance & Audit Committee, it is proposed:
 - to continue the process whereby Committee would have the opportunity to scrutinise the accounts over a longer period, in line with the period of public inspection.

- that 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 Governance & Audit Committee as to the outcome of the issues raised.
9. In line with best practice the Finance function will continue to review its approach and resilience to achieving timescales set out above and this will continue to be closely monitored.
10. As is the case with many other local authorities, the delays in completing the audit of the accounts leaves little capacity and time to make and embed improvements, including those that are highlighted during the audit.

B - Draft Accounting Policies 2022/23 and significant assumptions used in the Accounts

11. The Council's draft 2022/23 accounting policies and significant assumptions used in preparing the accounts are included at Appendix 3 and those for the Cardiff & Vale of Glamorgan Pension Fund are included in Appendix 4. 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 by local authority regulations.
12. There are no changes made to the draft policies or assumptions that would significantly impact on the reporting of financial performance historically or in the future. Amendments are minimal and have been shared with Audit Wales. However, it should be noted that specific areas of consideration following the completion of the 2021/22 accounts include:
- approach to valuation of non-current assets, including timing of valuations, following CIPFA and Audit Wales guidance
 - further clarification of accounting treatment for expenditure and income within the Pension Fund
13. There may also be further changes during the audit and as any further guidance issued by CIPFA is received.

C – Key changes in the 2022/23 Code

14. The main changes in the 2022/23 code issued by CIPFA relate to the treatment of:
- Annual Improvements to IFRS Standards 2018-2020
 - Property Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
15. These changes are not deemed to impact on Cardiff Council or Cardiff & Vale of Glamorgan Pension Fund accounts.

D – Factors impacting on the preparation of future Statement of Accounts

16. A number of reviews and changes are being proposed for future years which are likely to impact on the Code and Council's approach, where adopted by CIPFA.

Leasing

17. New standards on leasing are permitted to be implemented from 1 April 2022 (2022/23). However, mandatory implementation has been deferred until 1 April 2024. Whilst the benefits of IFRS16 are clear, there are also practical and costs benefit issues in compliance, which form part of the rationale for reasons for the deferral.

Valuation of Property Assets

18. A HM Treasury thematic review is being undertaken to consider the costs and benefits of the current regime and explore possible alternatives. Preliminary findings including consultation has highlighted that:
- The benefits and potential uses for valuations from a fiscal and financial management use as well as consistency, is limited and seeking verifiable audit evidence is challenging.
 - The time and expense incurred in engaging with external parties to provide valuation
 - The high estimation uncertainty; effort involved in the audit process is significant, and seeking verifiable audit evidence is challenging.
19. Any changes are unlikely to be applicable until 2024/25, however the aims of the review are deemed welcome.

Infrastructure Assets

20. Despite being in place for many years, CIPFA was required in January 2023 to introduce temporary solutions to the approach to accounting and disclosure for infrastructure assets. This was done to allow the completion of local authority audits and finalisation of their accounts without disqualification, requiring also changes in regulations in parallel across the country.
21. The above changes provide a temporary relief, pending further work to develop guidance and changes to the Code that might assist with the practitioners and users of local authority statements with representation of meaningful information. This exercise is unlikely to be just accountancy driven, but is likely to cover aspects of valuation, understanding conditions and useful life of assets, understanding conditions and systems for recording asset data and works undertaken. This is likely to involve a corporate approach to meeting any such changes in requirements.

Accounts and Audit Regulations

22. The approach to the 2023/24 statutory deadlines for the Statement of Accounts remains unclear. The Council has paused its approach to meeting the statutory closing deadlines until further clarification is received. In the event that the existing statutory deadlines remain in place, the Council and any other bodies charged with

governance will need to consider carefully the timing of meetings and potentially the responsibility for approving them in the short term and longer term. This includes the timing of Council meetings to approve the accounts and also Governance & Audit Committee for scrutiny of the accounts.

Reason for Recommendations

23. To inform Governance & Audit Committee of the key changes impacting on the Council's Statement of Accounts for 2022/23 and changes expected in the medium term.

Legal Implications

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

Financial Implications

25. The changes outlined in this report particularly beyond 2022/23 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

26. Governance & Audit Committee are requested to note:-
- the timescales proposed for the 2022/23 accounts
 - the draft accounting policies and assumptions to be used in preparing the statement of accounts for 2022/23
 - the key changes in the Code of Practice for 2022/23 and changes in the medium term

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CORPORATE DIRECTOR RESOURCES
21 MARCH 2023

The following Appendices are attached:

Appendix 1 – Introduction to Financial Statements

Appendix 2 – CIPFA Guide – Understanding Local Authority Financial Statements

Appendix 3 – Draft Accounting Policies and significant assumptions 2022/23 - Cardiff Council

Appendix 4 – Draft Accounting Policies and Assumptions 2022/23 – Cardiff & Vale of Glamorgan Pension Fund