

**GOVERNANCE & AUDIT COMMITTEE:**

**26 March 2024**

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**STATEMENT OF ACCOUNTS 2023/24 – TIMESCALES, ACCOUNTING  
POLICIES AND FUTURE REGULATORY CHANGES**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 6.2**

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**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 2023/24 statements.
  - B. The draft accounting policies on which the Statement of Accounts for 2023/24 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 2023/24 accounts arising from the 2023/24 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 based on council financial and information systems across many Directorates and relies on technical expertise and capacity 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. Officers are happy to guide members of the Committee individually through the accounts for 2022/23 and process involved to support their scrutiny role. A guide produced by CIPFA on Understanding Local Authority Financial Statements may also be useful information to members and this is 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. The Council works closely with Audit Wales (AW) on a process of continual improvement.

### **A - Timescales for the 2023/24 statements**

6. The 2023/24 statutory deadlines are shown in the table below. Since the Covid Pandemic, extensions to the statutory deadlines were introduced by Welsh Government and following discussions with the audit profession, and these are likely to continue for 2023/24 pending a wider national review on future approach.

<b>Item</b>	<b>Statutory Deadline</b>	<b>Agreed Target 2023/24</b>
Draft Statement of Accounts	31 May 2024	30 June 2024
Audited Statement of Accounts	31 July 2024	30 November 2024

7. The proposed Council timescales in relation to the 2023/24 accounts are shown in the table below:

<b>Date</b>	<b>Item</b>
30 June 2024	Draft Statement of Accounts signed off by Corporate Director Resources and submitted for external audit
9 July 2024 (TBC)	Draft Statement of Accounts available for Governance & Audit Committee review and start process of public inspection for 20 working days
9 July 2024 (TBC)	Receipt of Audit Wales Audit Plan
9 July 2024 (TBC)	Draft Statement of Accounts presented to Governance & Audit Committee meeting
31 October 2024	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
November 2024 (TBC progress)	Audited accounts presented to Governance & Audit Committee
November 2024 (TBC)	Final audited accounts and accompanying disclosures presented to Full Council for approval
30 November 2024 (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. The Finance function continues to review its approach and resilience to achieving timescales set out above. Compared to previous years achievement of 15 June, circa

two weeks has been added to the timescale in which the draft 2023/24 accounts are proposed to be signed and passed to Audit Wales.

## **B - Draft Accounting Policies 2023/24 and significant assumptions used in the Accounts**

10. The Council's draft 2023/24 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 assumptions could have a significant impact on the values included in the accounts and disclosure notes, but in many cases 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.
11. Changes made to the draft policies and assumptions are minimal and have been shared with Audit Wales. The main changes include:
- Updates to asset valuation dates as part of the recurring programme of revaluation of assets and continuing to emphasize that inflation is just one of the variables that impact on the accounting valuation of an asset.
  - Inclusion of a new accounting policy to allow capitalisation (spreading over time) of borrowing interest costs under specified circumstances. External advice, comparison with other authorities and Audit Wales advice has been sought in determining this change for projects that involve a significant period of construction and cost, prior to beneficial use.

There may also be further changes during the audit and as any further guidance issued by CIPFA is received.

## **C – Changes in the CIPFA 2023/24 Code**

12. The main changes in the 2023/24 code issued by CIPFA relates to:
- Definition of accounting estimates.
  - Disclosure of accounting policies.
  - Making materiality judgements.
  - Disclosures for accounting standards issued but not yet adopted.

These changes are not deemed to impact on Cardiff Council or Cardiff & Vale of Glamorgan Pension Fund current approach to the accounts.

## **D – Factors impacting on the preparation of Statement of Accounts for 2024/25 and onwards**

13. As well as resourcing implications for Audit and Council teams, several reviews and changes are being proposed for future years which are likely to impact on the Code and Council's approach to implementation, where adopted by CIPFA.

### Leasing

14. 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. The Council's focus will be on Property and Vehicle assets. Governance & Audit Committee received an update on 18 July 2023 of the council's current position and next steps. This position remains as previously outlined and continues to be developed.

### Valuation of Property Assets

15. A HM Treasury thematic review identified the costs and benefits of the current regime and aims to explore possible alternatives, which would need to be the subject of CIPFA consultation and agreement. Preliminary findings include 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.

Any changes are unlikely to be applicable until future financial years, however the aims of the review are deemed welcome, if they succeed in addressing the cost benefit issues of the current approach.

### Infrastructure Assets

16. 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.
17. 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

18. The Council has paused its approach to meeting the statutory closing deadlines until further clarification is received. Following discussion with Directors of Finance, Welsh Government and Audit Wales, the approach to future timings are expected to be set out shortly. This is expected to require a phased return to the Draft Accounts to be signed by 30 June and audited accounts to have been approved by 30 September. The Council and any other bodies charged with governance will need to carefully consider the timing of meetings and potentially the responsibility for approving accounts.

### Transition of Cardiff Capital Region City Deal (CCRCD) to Corporate Joint Committee (CJC)

19. The Council's share of CCRCDC transactions are included in the Council's accounts and relevant notes. The South East Wales Corporate Joint Committee Regulations 2021, Part 1 (Establishment and area), established a body corporate to be known as the South East Wales Corporate Joint Committee for the region. The CJC will amongst other things deliver the City Deal as part of its functions. From the 1 April 2024, the activities of the CCRCDC will transfer to the CJC, which will involve reducing the balances to nil.

### **Reason for Recommendations**

20. To inform Governance & Audit Committee of the key changes impacting on the Council's Statement of Accounts for 2023/24 and changes expected in the medium term.

### **Legal Implications**

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

### **Financial Implications**

22. The changes outlined in this report particularly beyond 2023/24 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**

23. Governance & Audit Committee are requested to note:-

- the timescales proposed for the 2023/24 accounts
- the draft accounting policies and assumptions to be used in preparing the statement of accounts for 2023/24
- the key changes in the Code of Practice for 2023/24 and changes in the medium term

**CHRISTOPHER LEE**  
**CORPORATE DIRECTOR RESOURCES**  
**26 MARCH 2024**

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 2023/24 - Cardiff Council

Appendix 4 – Draft Accounting Policies and Assumptions 2023/24 – Cardiff & Vale of Glamorgan Pension Fund