

**AUDIT COMMITTEE:**

**23 March 2021**

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**STATEMENT OF ACCOUNTS 2020/21 – TIMESCALES, ACCOUNTING  
POLICIES AND FUTURE REGULATORY CHANGES**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 8.2**

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**Reason for this Report**

The Audit Committee terms of reference set out the responsibility for reviewing the financial statements prepared by the authority.

This report has been prepared to provide Audit Committee Members with:-

- A. Proposed timescales for the 2020/21 statements
- B. The draft accounting policies on which the Statement of Accounts for 2020/21 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 2020/21 accounts arising from the 2020/21 CIPFA Code of Practice (the Code)
- D. Significant changes in 2021/22 and beyond that are likely to have the most impact on the accounts.

**Background**

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.

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.

The Council continues to work 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 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 2020/21 statements**

The 2020/21 statutory deadlines are shown in the table below along with the extended deadlines provided by Welsh Government. Welsh Government have recognised that ‘as the pandemic continues there is an ongoing impact on local authority staff resources and there may be additional work to finalise the accounts this year. Authorities may therefore wish to prepare their accounts to the extended timetable used for 2019-20 accounts’.

<b>Item</b>	<b>Statutory Deadline</b>	<b>Extended Deadlines</b>
Draft Statement of Accounts	31 May 2021	31 August 2021
Audited Statement of Accounts	31 July 2021	30 November 2021

The proposed timescales in relation to the 2020/21 accounts are shown in the table below:-

<b>Date (Last Working Day)</b>	<b>Item</b>
15 June 2021	Draft Statement of Accounts signed off by Corporate Director Resources and submitted for external audit.
21 June 2021	Draft Statement of Accounts available for Audit Committee review and public inspection for 20 working days
27 July 2021 (TBC)	Draft Statement of Accounts presented to Audit Committee meeting
31 August 2021	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
28 September 2021 (TBC)	Audited accounts presented to Audit Committee
23 October 2021 (TBC)	Final audited accounts and accompanying disclosures presented to Full Council for approval
27 October 2021 (TBC)	Publication of Statement of Accounts

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 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 Audit Committee as to the outcome of the issues raised.
- In line with best practice the Finance function is continuing to review its approach and resilience to achieving timescales set out above and this will continue to be closely monitored.

## **B - Draft Accounting Policies 2020/21 and significant assumptions used in the Accounts**

The Council's draft 2020/21 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. Other than minor changes listed in the following table, the accounting policies remain the same as previous years.

<b>Accounting Policies Section</b>	<b>Change</b>
General Principles	<ul style="list-style-type: none"><li>• Disclosure of the Council's approach to local authority maintained schools. This is for clarification only to meet the requirements of the Code and is not a change in policy.</li><li>• Updating of narrative and tables for 2020/21.</li></ul>
Accounting standards issued but not yet adopted	<ul style="list-style-type: none"><li>• Updated for items to be included in future Codes of Practice</li></ul>

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 2020/21 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.

Amendments to the draft accounting policies and assumptions have been considered and agreed with Audit Wales. However, it should be noted that there may be further changes following the audit and as there is further guidance issued by CIPFA.

## **C – Key changes in the 2020/21 Code**

The main changes in the 2020/21 code issued by CIPFA relate to the treatment of:

- Amendments to implement and emphasise the standards for Presentation of Financial Statements and Definition of Material e.g. the importance of ensuring that material information is not obscured for users
- Employee Benefits – Plan Amendment, Curtailment or Settlement – reference to materiality requirements and factors to consider in making an assessment of quantitative materiality.
- References to application of accounting standards arising as a consequence of the United Kingdom's withdrawal from the European Union.

The council is assessing the impact of these changes. However initial reviews indicate that these are either not relevant or not deemed to have a material impact on the accounts or financial performance.

## **D - Significant changes from 2021/22 onwards**

Due to the impact of COVID-19 CIPFA LASAAC has made the decision to delay implementing IFRS 16 until 1 Apr 2022, 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. This amendment is to be applied to the 2022/23 accounts with no retrospective change for previous years.

Current agreements are being identified in property, vehicles, plant and equipment (including schools) and significant areas of embedded leases are being considered. Embedded leases are those where the Council has a contract including the right-of-use of an asset. Following identification, the accounting and reporting requirements will be analysed with a view to setting policy for future disclosures whilst having regard to the cost/benefit, including setting a reasonable de-minimus level.

### **Accounts and Audit Regulations**

In accordance with current regulations the Council is required to bring forward timescales for the statement of accounts in 2021/22 to meet the statutory deadlines. 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**

To inform Audit Committee of the key changes impacting on the Council's Statement of Accounts for 2020/21 and changes expected in the medium term.

### **Legal Implications**

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

### **Financial Implications**

The changes outlined in this report particularly beyond 2020/21 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**

Audit Committee are requested to note:-

- the timescales proposed for the 2020/21 accounts

- the draft accounting policies and assumptions to be used in preparing the statement of accounts for 2020/21
- the key changes in the Code of Practice for 2020/21 and changes in the medium term

**CHRISTOPHER LEE**  
**CORPORATE DIRECTOR RESOURCES**  
**23 MARCH 2021**

The following Appendices are attached:

Appendix 1 – CIPFA Guide – Understanding Local Authority Financial Statements

Appendix 2 – Draft Accounting Policies 2020/21

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