

GOVERNANCE & AUDIT COMMITTEE:

15 March 2022

**STATEMENT OF ACCOUNTS 2021/22 – TIMESCALES, ACCOUNTING
POLICIES AND FUTURE REGULATORY CHANGES**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5.2

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 2021/22 statements
 - B. The draft accounting policies on which the Statement of Accounts for 2021/22 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 2021/22 accounts arising from the 2021/22 CIPFA Code of Practice (the Code)
 - D. Additional items with implications for the 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; relies on technical expertise and capacity in order to meet tight timescales for preparation and makes previously recommended improvements. Attached for information, in Appendix 1, is a document introducing the contents and thorough 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 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 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 - Proposed timescales for the 2021/22 statements

7. The 2021/22 statutory deadlines are shown in the table below. In the last two years, Welsh Government has recognised that as the pandemic continues there is an ongoing impact on local authority and external audit staff resources. In recognition of this an extension to the deadlines was introduced and it is assumed that these will continue for 2021/22.

Item	Statutory Deadline	Extended Deadlines
Draft Statement of Accounts	31 May 2022	31 August 2022
Audited Statement of Accounts	31 July 2022	30 November 2022

The proposed timescales in relation to the 2021/22 accounts are shown in the table below:

Date (Last Working Day)	Item
15 – 30 June 2022	Draft Statement of Accounts signed off by Corporate Director Resources and submitted for external audit.
11 July 2022 (TBC)	Draft Statement of Accounts available for Governance & Audit Committee review and public inspection for 20 working days
19 July 2022 (TBC)	Draft Statement of Accounts presented to Governance & Audit Committee meeting
31 August 2022	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
September / October 2022 (subject to audit progress)	Audited accounts presented to Governance & Audit Committee
20 October 2022 (TBC)	Final audited accounts and accompanying disclosures presented to Full Council for approval
28 October 2022 (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.
- 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 2021/22 and significant assumptions used in the Accounts

9. The Council's draft 2021/22 accounting policies are included, at Appendix 3. 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, the accounting policies remain the same as previous years.
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 2021/22 for disclosure in the accounts are included in Appendix 4 and the 2021/22 Cardiff & Vale of Glamorgan Pension Fund accounting policies and assumptions are included in Appendix 5. 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 shared 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 2021/22 Code

12. The main changes in the 2021/22 code issued by CIPFA relate to the treatment of:
 - Interest Rate Benchmark Reform
13. The London Interbank Offered Rate ("LIBOR") was phased out on 31st December 2021 and replaced by various alternative risk-free rates ("RFRs") across the financial markets, e.g. Sterling Overnight Index Average (SONIA). The impact for local authorities could be in any agreements and documents where LIBOR may be referenced such as loan agreements, deposit facilities, discount rates used in valuations, PFI type agreements and investment benchmarking. This change is not deemed to impact on Cardiff Council or Cardiff & Vale of Glamorgan Pension Fund accounts.

D - Additional items with implications for the Statement of Accounts

CIPFA Financial Management Code

14. The preparation and publication of financial information is one of the primary ways in which the authority demonstrates accountability to service users, taxpayers, to citizens and to other organisations across the public sector. External reporting is one of the key elements of CIPFA's Financial Management Code (FM Code) introduced in 2020, requiring local authorities to undertake a self-assessment against suggested standards.
15. CIPFA's Statement on The Role of the Chief Financial Officer (CFO) in Local Government states that it is the responsibility of the authority's CFO to publish annual financial statements on a timely basis, in order to communicate the authority's activities and achievements, its financial position, financial performance and cash flows.
16. In order to demonstrate compliance with the requirement of the FM Code that the authority's CFO has both personal and statutory responsibilities for ensuring that its financial statements comply with the local authority accounting Code. The authority should, however, also ensure that the CFO is provided with sufficient resources to fulfil their personal and statutory responsibilities under this element of the FM Code.

CIPFA Consultation – Emergency Changes to the 2021/22 and 2022/23 Code

17. At the end of January 2022, CIPFA commenced a very short consultation period in respect to exceptional changes in the 2021/22 Local Authority Code of Accounting Practice. This was in response to feedback that three months after the 30 September 2021 statutory deadline more local bodies had failed to meet the statutory deadline than had met it for the completed audit and publication of the accounts.
18. After considering a wide range of options CIPFA LASAAC decided to explore two approaches:
 - an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
 - deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.
19. It is also clearly indicated in the consultation that the proposed changes would be 'reversed' in two to three years' time meaning they are aimed at buying time to address the current UK wide poor performance. Whilst the Council supports the proposals, this should not be at the expense of undermining confidence in local authority accounting. Where flexibilities were provided, to support the meeting of deadlines and new requirements, a supportive approach is requested to ensure a return to the current Code requirements.
20. In respect to new standards on leasing to be implemented from 01 April 2022 (2022/23), the exceptional circumstances of the response to the pandemic and the impact on finance teams has warranted recent delays. Whilst the benefits of IFRS16

are clear, there are also practical and costs benefit issues in compliance, which may be part of the rationale for reasons for delay.

21. It is also important that the local government and audit community make tangible steps towards the simplification of local authority accounts and audit process to support the understanding and timeliness of the accounts process.
22. The Council awaits the outcome of the consultation, the subject area of which continue to highlight the challenges being faced by practitioners and auditors in respect to local authority accounts.

Accounts and Audit Regulations

23. The approach to the 2022/23 statutory deadlines for the Statement of Accounts remains unclear. The Council has remained well within the extended deadlines, but it 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

24. To inform Governance & Audit Committee of the key changes impacting on the Council's Statement of Accounts for 2021/22 and changes expected in the medium term.

Legal Implications

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

Financial Implications

26. The changes outlined in this report particularly beyond 2021/22 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

Governance & Audit Committee are requested to note:-

- the timescales proposed for the 2021/22 accounts
- the draft accounting policies and assumptions to be used in preparing the statement of accounts for 2021/22

- the key changes in the Code of Practice for 2021/22 and changes in the medium term

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
15 MARCH 2022

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 2021/22 - Cardiff Council

Appendix 4 – Draft significant assumptions and estimates used in preparing the Accounts

Appendix 5 – Draft Accounting Policies and Assumptions – Cardiff & Vale of Glamorgan Pension Fund