

Divisions Affected - All

AUDIT & GOVERNANCE COMMITTEE

11 May 2022

Statement of Accounts 2021/22

Report by Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to**
 - a) note the proposed timetable for the 2021/22 Statement of Accounts and the highlighted future changes
 - b) ratify the accounting policies as approved by the Chief Finance Officer and included as an annex to this report

Executive Summary

2. This report sets out the approach taken to the preparation of the 2021/22 Statement of Accounts including:
 - (a) The proposed timetable for the 2021/22 Statement of Accounts and external audit
 - (b) Future changes to the Code
 - (c) The approved Significant Accounting Policies which describe how the Council has interpreted and applied the Chartered Institute of Public Finance and Accountancy (CIPFA) 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and form the basis of preparation of the accounts.

Timetable for 2021/22 Statement of Accounts

3. The 2020/21 audit remains in progress. All the changes have been made to our asset valuations and information has now been passed to the external auditor for final review. However, due to the issue identified in paragraph 7-10 below, the completion of any outstanding 2020/21 local authority accounts has been delayed. This is a decision jointly made by all external audit firms for the technical issue to be resolved.
4. Further to the paper presented at the March meeting, the deadline for publication of audited accounts for 2021/22 is 30 November 2022.

5. The Council is well placed to produce the Statement of Accounts for 2021/22. The draft accounts are scheduled to be published by the end of June. A link to the draft accounts will be sent to members of the Audit and Governance Committee upon publication. The external audit will commence in July & August and it is anticipated that the Audit & Governance Committee will be able to approve the audited accounts by the publication deadline of 30 November.

Future Changes to the Code

6. The implementation of IFRS 16 Leases remains a significant known change to the Code. Following the emergency consultation undertaken by CIPFA LASSAC¹ in March, a recommendation was made to FRAB² to delay the implementation of IFRS 16. FRAB advised CIPFA LASSAC that it agreed with the deferral of IFRS 16 until 1 April 2024 and there in the 2024/25 Code. The Council is continuing to work to ensure it can meet this deadline.
7. A sector wide technical issue has emerged around the area of expenditure on infrastructure assets (e.g. roads, bridges, street lights). There is a requirement under a section of the Code that where part of a non-current asset is replaced the carrying amount of the old part should be de-recognised to avoid double counting and the new part reflected as the carrying amount. Nationally Councils are not following this methodology for infrastructure assets because there are significant difficulties in applying this approach to such assets. This is particularly in relation to roads, where the records used to maintain, replace and add to the asset have not been created to identify specific components.
8. There is a good article that can be seen on the link below that explains the issue in more depth. [Infrastructure Asset Article](#)
9. CIPFA has established a Task and Finish Group with the objective of proposing a way forward. Currently they have presented the possibility of a temporary amendment to the Code to remove the need to de-recognise along with possible longer-term solutions.
10. The Task and Finish Group are scheduled to report back at the end of June 2022. Until then we are in a position of uncertainty of the precise way forward on this matter. It could potentially lead to an amendment to our accounting policy for infrastructure assets as well as a prior period adjustment to the accounts – depending on the way forward that FRAB would approve.

Significant Accounting Policies 2021/22

11. The Council's Statement of Accounts is prepared in accordance the Code. The Council is required to adopt accounting policies which describe how the Council has interpreted and applied the Code.

¹ Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee

² Financial Reporting Advisory Board

12. The Code defines Accounting Policies as ‘the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.’
13. The significant accounting policies adopted by the Council are disclosed within three notes to the Core Financial Statements in the Statement of Accounts:
 - Note 1. Summary of Significant Accounting Policies (Annex 1)
 - Note 2. Critical judgements in applying accounting policies
 - Note 3. Assumptions made about the future and other major sources of estimation uncertainty
14. The Code prescribes that ‘authorities shall apply the objective, underlying assumption and qualitative characteristics of useful financial information, in the selection and application of accounting policies and estimation techniques.’
15. The Code provides a detailed framework within which accounting policies must be set:
 - When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial.
 - Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
 - a) relevant to the decision-making needs of users, and
 - b) reliable, in that the financial statements:
 - i) represent faithfully the financial position, financial performance and cash flows of the authority
 - ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
 - iii) are neutral, i.e. free from bias
 - iv) are prudent, and
 - v) are complete in all material respects.
 - In making the judgement management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.
 - An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits different treatment.

- An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.
- Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to do so.

Approval of Accounting Policies

16. The code states that the Chief Finance Officer is responsible for selecting 'suitable' accounting policies and ensuring that they are applied consistently in the preparation of the statement of accounts. The Chief Finance Officer has approved Note 1. Summary of Significant Accounting Policies for 2021/22 as set out in **Annex 1**. All significant accounting policies have been selected with reference to the Code. There have been no material changes to the accounting policies for 2021/22.
17. The Council's auditors will review the adopted accounting policies as part of the audit of the statement of accounts. There is also an expectation that the auditors will be able to evidence that the accounting policies have been approved by the Audit and Governance Committee in its capacity as 'Those Charged with Governance'. The Audit and Governance Committee is therefore asked to ratify the accounting policies as set out in Annex 1.
18. Note 2. Critical judgements in applying accounting policies and Note 3. Assumptions made about the future and other major sources of estimation uncertainty will be prepared alongside the main financial statements and other notes to the accounts as the relevant information becomes available.

Financial Implications

19. Any change to the Code may entail significant investment of staff time to bring reporting in line with guidance.

Comments checked by:

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Legal Implications

20. There are no legal implications arising directly from the measures set out. However, the Council will need to ensure that arrangements are put in place to

comply with any amendments to the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 and statutory guidance, including the Code of Practice on Local Authority Accounting in England and Wales.

Comments checked by:

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LORNA BAXTER
Director of Finance

Annex: Note 1. Summary of Significant Accounting Policies

Background papers: Nil

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