Division(s): All

AUDIT & GOVERNANCE COMMITTEE

3 March 2021

Statement of Accounts 2020/21

Report by Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to:**

   a) note the proposed timetable for the 2020/21 Statement of Accounts and external audit

   b) ratify the accounting policies as approved by the Chief Finance Officer and included as an appendix to this report

Executive Summary

2. This report sets out the approach taken to the preparation of the 2020/21 Statement of Accounts including:
   (i) The proposed timetable for the 2020/21 Statement of Accounts and external audit taking into account the consultation of amendments to the Accounts and Audit Regulations
   (ii) The approved Significant Accounting Policies which describe how the Council has interpreted and applied the Chartered Institute of Public Finance and Accountancy (CIPFA) 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and form the basis of preparation of the accounts.
   (iii) Changes to the Code and audit methodology for 2020/21
   (iv) Future changes to the Code and Accounts and Audit Regulations

Timetable for 2020/21 Statement of Accounts

3. The Ministry of Housing, Communities and Local Government (MHCLG) has launched a consultation on amendments to the Accounts and Audit Regulations 2015 which set out the statutory timetable for the publication of the Council's unaudited accounts and completion of the external audit.
4. The draft regulations include an extension to the deadline for the completion of the external audit from 31 July to 30 September for two years relating to the 2020/21 and 2021/22 accounts. The deadline will be reviewed after that period

and will include an evaluation of whether an extended deadline has improved the audit completion rate. While 2019/20 was an exceptional year, 40% of audits failed to meet the 2018/19 deadline of 31 July.

5. The draft regulations also remove the fixed period for public inspection of the accounts for 2020/21 which required draft accounts to be published by 31 May and instead require draft accounts to be published on or before 1 August. The amended regulations have been designed to provide flexibility, giving more time for the completion of the draft accounts where required but also enabling draft accounts to be published earlier and for audits to be completed in advance of the 30 September deadline.

6. The Council is well placed to produce the Statement of Accounts for 2020/21. The amended timetable for the 2019/20 audit, which extended into November 2020, has had a knock-on effect on the timing of the valuations for Property Plant and Equipment. However, at this stage it is not expected that this will significantly delay the production of the draft accounts. The Council's external auditors have also confirmed that they are able to resource the audit based on the timetable set out in existing regulations.

7. It is therefore proposed to take advantage of the flexibility within the draft regulations. The draft accounts will be published in early 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 early June and it is anticipated that the Audit & Governance Committee will be able to approve the audited accounts at the meeting in July.

Significant Accounting Policies 2020/21

8. 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.

9. The Code defines Accounting Policies as 'the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.'

10. 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

11. 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.'

12. 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 so do.

Approval of Accounting Policies

13. 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 2020/21 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 2020/21.

14. 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.

15. 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.

Changes for 2020/21

Accounting Code of Practice

16. There are no significant changes to the production of the accounts as a result of changes to the Code for 2020/21.

17. The most important change to note is that following the UK’s withdrawal from European Union, the Code is based on standards adopted for UK application under the terms of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685). There is no change to the production of the accounts as a result of this.

School and Early Years Finance (England) Regulations 2020 and The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020

18. The School and Early Years Finance (England) Regulations 2020 came into force on 21 February 2020 and are applicable to the 2020/21 accounts. The regulations stipulate that a deficit on the Dedicated Schools Grant (DSG) must be carried forward to be funded from future DSG income unless permission is sought from the Secretary of State for Education to fund the deficit from general resources.

19. Further clarification of the accounting treatment for deficit DSG balances was provided by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 which came into force on 29 November 2020.

20. These stipulated that where a local authority has a deficit in respect of its school budget for a financial year beginning on 1st April 2020, 2021 or 2022, the authority—

    (a) must not charge to a revenue account an amount in respect of that deficit; and

    (b) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its school budget

21. In practice, this will mean that an unusable reserve will be created on the balance sheet to hold the negative balance. This is different to the current accounting treatment where the negative balance is held within the Council's total Earmarked Reserves. The Council has existing unusable reserves such as the Pension Reserve. Unusable reserves are usually created to hold accounting adjustments that cannot be charged to the general fund and have no cash value. The new DSG unusable reserve will be unique in that it the deficit balance has a real impact on the Council's cash balance.

Code of Audit Practice

22. The revised Code of Audit Practice came into effect from 1 April 2020. There are no significant implications for the preparation of the accounts. However, the revised code emphasises the importance of timely reporting, the importance of knowledge and skills and replaces the Value for Money Conclusion with a Commentary.

23. The Value for Money Commentary should include an assessment of the local authority's financial suitability, governance arrangements and the ability to improve economy, efficiency and effectiveness. In practice this is likely to mean more work for both auditors and local authorities. However, this should also provide an assessment that is more meaningful to members and residents.

Future Changes

24. The implementation of IFRS 16 Leases remains the most significant known change to the Code beyond 2020/21. Due to the impact of COVID-19 and the resulting resource issues facing finance staff CIPFA has made the decision to delay implementing IFRS 16 until 1 April 2022 (previously delayed from 1 April 2020 to 1 April 2021). This means that the first accounts to be produced incorporating the standard will be for the year 2022/23. While the work required to implement the standard is significant, the Council is well placed to do so having begun preparation for implementation in 2019/20.

25. The Redmond Review made a number of recommendations regarding the format and content of the Statement of Accounts which, if adopted, will impact on the production and audit of the accounts. They can be summarised into two proposed changes:

    (i) Summary Statements are introduced that are standardised, audited, compare costs to budget and are in addition to the statutory accounts

(ii) The Code is reviewed to simplify presentation and remove disclosures

26. MHCLG published a formal response to the Redmond Review on 18 December. The response agreed with the Redmond Review that, to 'ensure all taxpayers across the country can effectively hold their council to account, more is needed to improve the accessibility of all authorities' accounts' and stated that 'the proposed measures will go some way towards further improving local transparency and accountability'.

27. It is expected that MHCLG will work with CIPFA to introduce the Summary Statements from 2021/22. To enable this there may need to be an amendment to the Accounts and Audit Regulations to mandate the inclusion of the statement. The Code of Audit Practice will also need to be amended by the National Audit Office (NAO) to include the audit requirements.

28. MHCLG has committed that additional funding will be made available to local authorities in 2021/22 to enable the preparation of the standardised statements although individual allocations have not been published.

29. MHCLG also supported Redmond's view that there may be scope to simplify the presentation of local authority accounts by removing disclosure requirements. The earliest that that this can be incorporated into the accounts is through the 2022/23 Code. MHCLG acknowledged that significant changes would require a phased approach.

LORNA BAXTER
Director of Finance

Annex: Note 1. Summary of Significant Accounting Policies

Background papers: Nil

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