

AUDIT AND GOVERNANCE COMMITTEE – 8 MAY 2019

ACCOUNTING POLICIES FOR PREPARATION OF THE STATEMENT OF ACCOUNTS AND THE APPROACH TO THE NARRATIVE STATEMENT

Report by Director of Finance

RECOMMENDATION

1. The Committee is RECOMMENDED to
 - a) note the report;
 - b) ratify the accounting policies as approved by the Chief Finance Officer and included as an appendix to this report; and
 - c) note the content and timetable for the 2018/19 narrative report.

Executive Summary

2. The Council's Statement of Accounts is prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
3. This report sets out the Council's approach to two elements of the Statement of Accounts:
 - (a) Significant Accounting Policies which describe how the Council has interpreted and applied the code and form the basis of preparation of the accounts
 - (b) The Narrative Statement which is the Council's opportunity to 'tell the story' about the Council's aims, objectives and outcomes, linked to the financial performance as set in the main financial statements.

Significant Accounting Policies

4. The Council's Statement of Accounts is prepared in accordance with the Council's Accounting Policies. The significant accounting policies adopted by the Council are disclosed within the Notes to the Core Financial Statements in the Statement of Accounts.
5. The Code defines Accounting Policies as 'the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'. The accounting policies describe how the Council has interpreted and applied the code.

6. The draft 'Note 1. Summary of Significant Accounting Policies' is included as an appendix to this briefing note.
7. 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'.
8. 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

9. 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 2018/19 accounting policies, as set out in the appendix 'Note 1. Summary of Significant Accounting Policies', have been approved by the Chief Finance Officer. All significant accounting policies have been selected with reference to the Code.
10. The Council's auditors will review the adopted accounting policies as part of the audit of the statement of accounts. As set out in the audit plan, 'there will be particular focus on changes made to [accounting policies] or where policies are different to those suggested by the code'.
11. There is also an expectation that the auditors will be able to evidence that the accounting policies have been approved by Those Charged With Governance. In this council that is the Audit and Governance Committee.

Changes to Accounting Policies for 2018/19

12. There have been no material changes to the accounting policies for 2018/19. However, in line with CIPFA's mantra to 'clear the clutter' the note has been streamlined to improve the focus on policies which have a significant impact on the interpretation of the accounts.

Narrative Statement

13. The narrative statement opens the Statement of Accounts and is the Council's opportunity to 'tell the story' and illuminate the financial performance, as set out in the main financial statements, by including performance information.
14. The 2018/19 narrative statement will include performance information as set out in the March Business Management and Monitoring Report report to 31 March. This report will be considered by Chief Executives Direct Reports on 1 May and by Cabinet on 14 May.
15. The full narrative statement will be circulated by email on 17 May to members of the Audit Governance Committee by the Corporate Performance and Risk Manager. Members as asked to comment by 24 May to enable to publication of the draft Statement of Accounts for public inspection on 31 May 2019.

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Background papers: None

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April 2019