

REPORT TO	ON
Governance Committee	18 April 2018

External Audit Annual



TITLE	REPORT OF
2017/18 Closure of Accounts – Approval of Accounting Policies to be included in the Statement of Accounts 2017/18	Deputy Chief Executive (Resources & Transformation)

Is this report confidential?	No
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### 1. PURPOSE OF THE REPORT

To present the Statement of Accounting Policies 2017/18 for consideration and approval and provide information on the current and future accounting changes in the Code of Practice on Local Authority Accounting in the United Kingdom.

### 2. RECOMMENDATIONS

2.1 Consider and approve the Statement of Accounting Policies 2017/18 at Appendix A.

### 3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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### 4. BACKGROUND TO THE REPORT – STATEMENT OF ACCOUNTING POLICIES 2016/17

4.1 The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom defines Accounting Policies as “the specific principles, bases, conventions, rules and practices applied by the Authority in preparing financial statements”. Accounting policies are the cornerstone of an organisation’s financial control environment, bridging the gap between technical accounting literature and business practices, explaining how we apply accounting standards in practice and what discretion we have applied in adopting accounting standards should there be any discretion available.

4.2 It is recommended by our External Auditors, considered best practice and in line with proper accounting practices that the proposed accounting policies for the year, which will form part of the published Statement of Accounts, are approved each year by the Governance Committee. Accordingly, presented at Appendix A are the Statement of Accounting Policies for 2017/18. This is only the second time we have approved the Accounting Policies independently of the Statement of Accounts. The Accounting Policies for a financial year were previously contained within, and approved as part of the approval of, the Statement of Accounts.

4.3 Accounting standards allow some flexibility in choice of methods that can be applied to a specific class of transactions. However, in order to prevent manipulation, an organisation changing its accounting policy must have a strong reason for any such change. Further, it is required to present its new financial statements as if it followed the newly adopted policy since the day it started business. In other words, accounting standards require any change in accounting policy to be presented with retrospective application. The effect of such application would be that the change will be reflected in past, present and future periods with disclosures in the accounts to show the impact of those changes.

4.4 Shared Financial Services review the accounting policies each year to consider if any changes are necessary in light of any changes in working practice, changes in the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and any new accounting standards adopted.

4.5 Changes to the 2017/18 Statement of Accounting Policies are identified as tracked changes in Appendix A. Changes are minor and in summary are as follows:

- Date changes to reflect the current financial year.
- Date changes to reflect the current version of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.
- Minor additions to existing policies to improve clarity and understanding.
- Addition of an accounting policy on Council Tax and Business Rates income as the transactions are material to the Authority's financial statements. This is not a new accounting policy and was previously included within the notes to the Collection Fund but has been added to the main policies at the request of our external auditors.
- Addition of an accounting policy on Inventories and Long Term Contracts as the transactions could be material to the Authority's financial statements. This is not a new accounting policy and was previously excluded as the transactions were not material.

It should be noted that the accounting policies may be subject to minor amendments between the distribution of this report and the final Statement of Accounts 2017/18, for example as a result of recommendations or findings during the external audit.

## **5. ACCOUNTING CHANGES 2017/18**

5.1 The changes required as part of the updated CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 are relatively straightforward when compared to the large number of changes in 2016/17. These changes, and the action required to ensure compliance with the Code were reported to Governance on the 31<sup>st</sup> January 2018 in the report 'External Audit - Update Report/Closure of Annual Accounts 2017/18 - plans to achieve the new deadline'.

## **6. FUTURE CHANGES**

6.1 We have been advised about forthcoming changes in the 2018/19 Accounting Code of Practice and those due in subsequent years.

6.2 IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers will be implemented from 2018/19. IFRS 16 Leases will apply from 2019/20. Of these the most significant is likely to be IFRS 16, because all assets acquired under leases will be brought on the council's balance sheet. Currently assets obtained through operating leases are not on the balance sheet and are simply treated as a revenue costs.

6.3 More information will be provided about these changes when the Statement of Accounting Policies for the years in question are brought to Governance Committee.

## **7. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION**

7.1 No consultation was undertaken in preparing this report. The report purely relates to the technical and statutory accounting requirements for the Statement of Accounts. The Statement of Accounting Policies includes changes requested by external audit as a result of the 2016/17 audit of the Statement of Accounts, changes required to as a result of changes to accounting standards and the CIPFA Code of Practice and changes to aid understanding as a result of a review by the Shared Financial Services Team. Training on the Statement of Accounts, including the Accounting Policies, will be given to Member's at the annual Statement of Accounts Learning Hour.

## **8. FINANCIAL IMPLICATIONS**

8.1 There are no direct financial implications arising as a result of this report. The report purely relates to the technical and statutory accounting requirements for the Statement of Accounts.

## **9. LEGAL IMPLICATIONS**

9.1 The legal implications are in respect of the Accounts and Audit Regulations 2015 and the requirement that the accounts must be compliant with the relevant accounting standards and codes of practice and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.

## **10. COMMENTS OF THE STATUTORY FINANCE OFFICER**

10.1 The Statement of Accounting Policies 2017/18 have been reviewed for regulatory compliance. There are no financial implications as the accounting standards are applied in practice. The changes to the accounting policies for the year have been made at the request of the external auditor to ensure a clear policy is present for all material transactions and balances and to aid understanding.

## **11. COMMENTS OF THE MONITORING OFFICER**

11.1 There is not a great deal that needs to be said from a Monitoring officer perspective apart from observing that the Statement of Accounting Policies 2017/2018 have been designed to comply with both relevant regulations and the request of our external auditor.

## 12. OTHER IMPLICATIONS:

<ul style="list-style-type: none"><li>▶ <b>HR &amp; Organisational Development</b></li><li>▶ <b>ICT / Technology</b></li><li>▶ <b>Property &amp; Asset Management</b></li><li>▶ <b>Risk</b></li><li>▶ <b>Equality &amp; Diversity</b></li></ul>	<p>Risk implications apply in relation to the Accounts and Audit Regulations 2015 to prepare financial statements in accordance with the statutory timetable. The accounts must be compliant with the relevant standards and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.</p>
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## 13. BACKGROUND DOCUMENTS

- Accounts and Audit (England) Regulations 2015
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
- External Audit – 2016/17 Audit Findings and Progress Report– Report to Governance Committee 13<sup>th</sup> September 2017  
<http://southribble.moderngov.co.uk/documents/s722/South%20Ribble%20Audit%20Findings%20Report.pdf>

## 14. APPENDICES

Appendix A - The Statement of Accounting Policies 2017/18

SMT Member's Name: Lisa Kitto

Job Title: Deputy Chief Executive (Resources & Transformation)

Report Author:	Telephone:	Date:
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