

AUDIT & GOVERNANCE COMMITTEE

30th March 2017

Report of the Director of Finance

CHANGES TO THE CIPFA CODE OF PRACTICE AND PROPOSED ACCOUNTING POLICIES 2016/17

Purpose

To advise Members of the changes to the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and the proposed Accounting Policies for 2016/17.

Recommendations

That:

1. the changes to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom are considered; and
2. the proposed Accounting Policies for 2016/17 are approved.

Executive Summary

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. However the current complexity of the financial statements has not helped this accountability, particularly in how the amounts in the statements are easily reconciled to management accounting and in-year monitoring of budgets.

As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. There is little discretion to the Council as the proper accounting practices, that all local authorities follow, are set down in the Code.

Although there will be changes to the appearance of the accounts for 2016/17, they do not directly impact on the underlying accounting policies. ***Para 3.3.6.1 of the Code states 'There have been no changes to the requirements of the accounting policies, changes in accounting estimates and errors section of the Code since the 2015/16 Code'.***

The proposed accounting policies are presented at **Appendix A**. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect for the Statement of Accounts.

Apart from changes to the dates, these have not significantly changed from the 2015/16 policies. These do not depart from the provisions of the 2016/17 Code.

These policies have been presented at the June meeting in previous years within the Draft Accounts. This earlier adoption of the accounting policies will assist with production of the draft accounts by 31st May 2017. The aim is to have the audited accounts complete by 31st July 2017.

The changes to the Code of practice requirements for 2016/17 (summarised at **Appendix C**) includes amendments to the Code's provision on the presentation of financial statements to amend the reporting requirements for:

- a) the Comprehensive Income and Expenditure Statement (CIES);
- b) the Movement in Reserves Statement (MiRS);
- c) the removal of the Service Expenditure Analysis; and
- d) the introduction of an **Expenditure and Funding Analysis** (EFA) under "*telling the story*" with the intention of improving the presentation of local authority financial statements.

For 2016/17 the accounts will include **service segments** based on the way the Council operates and manage services. There is no longer a requirement for the service analysis to be based on the service expenditure analysis in the Service reporting Code of Practice (SerCOP). The new format, as detailed in the proposed updated 2015/16 format at **Appendix B**, means the service section of the CIES supports accountability and transparency as it reflects service structures within the Council.

The MiRS prescriptions have been reduced to an absolute minimum in the Code and will become less prominent. The code requires a summary of General Fund and HRA reserves (in total – now included as highlighted in **Appendix C**) – however, we propose to retain the breakdown between general balances and earmarked reserves.

The introduction of the EFA to the 2016/17 Code is intended to allow a clear link to be made between in-year monitoring, General Fund information and final outturn, closing the accountability loop from budgets through to outturn. This will be supported by the requirement to cross reference to the EFA within the management commentary which will help to provide a linkage between management and annual accounts.

The EFA demonstrates to council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed and earned by authorities in accordance with generally accepted accounting practices. The EFA also shows how expenditure is allocated for decision making purposes between the Council's Directorates.

Full retrospective restatement of the 2015/16 CIES and EFA related information will have to be made. However there is no requirement for a restated balance sheet as there are no changes to that information as a result of new accounting policies.

Templates of the updated 2015/16 revised statements compared to the current statements are presented in **Appendix B**. The template shows the proposed revised structure of the CIES, reporting at a Directorate level. The revised statement shows draft 2015/16 balances.

The Funding Analysis takes the net expenditure chargeable to taxation and reconciles it to the CIES.

In addition it is intended that officers will continue to cut the clutter and remove immaterial disclosures

The potential perceived benefits are:

- The new presentation of the CIES and the EFA should make the statement easier for our users (in particular the lay reader) to understand as these statements are now based on the management and internal reporting structure rather than the Service Reporting Code of Practice (SERCOP).
- It will help officers to present the financial statements to members and other key stakeholders by improving the presentation of key information.
- It should provide users with a better understanding of the statutory adjustments (i.e. depreciation, absence accrual etc.) applied to the accounts to determine the movement on General Fund.

(The EFA has been designed as a bridge between the way in which we are required by proper accounting practice to report performance in the CIES and the arrangements put in place during the year to manage the budget).

- The detailed movement in the General Fund balance is no longer required to be reported on the face of the MiRS due to the consolidation of earmarked reserves and the General Fund Balance (and consolidation of earmarked reserves and the HRA Balance), **however it is recommended (and supported by Grant Thornton) that the detail continue to be shown with summary columns to ensure compliance with the Code.**

Overall the changes to the financial statements prescribed in the 2016/17 Code should provide better accountability and transparency and a clear link between in-year monitoring and final outturn.

For future years:

There are other significant upcoming changes to the Code in future years which include the provision for IFRS 9 which replaces IAS 39 Financial Instruments: recognition and measurement and IFRS 15 Revenue from Contracts with Customers. These do not apply until 2018/19 nevertheless the changes will inevitably involve considerable advance planning and preparatory work in the lead up to implementation and the 2017/18 Code will contain additional appendices containing the provisions for the introduction of these accounting standards.

Legal and Risk Implications

The Accounts and Audit Regulations 2015 require that the statement of accounts be produced by 30th June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. From 2017/18 there will be a legal requirement to produce the Statement of Accounts by 31st May each year, and have them audited and approved before 31st July.

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain compliant with both the Code of Practice on Local Authority Accounts and International Financial Reporting Standards (IFRS) which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the covalent risk register.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	M H	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Incorrect interpretation of changes in either the Code of Practice or IFRS	M H	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
3	Guidance by CIPFA changing possibly causing delays	M H	Regular review and rescheduling of project timetable
4	Inadequate training / lack of understanding of code changes	L M	Research available training, ensure all relevant staff attend, training budget to be adequate. Key staff attendance at training provided by Grant Thornton & Arlingclose.
5	Failure to identify all leases	L M	Ensure staff understand exactly what is involved / process to outline the requirements
6	Key staff leaving	L M	Ensure there are sufficient skills within the team to cover
7	Delay in receiving information from external parties / contractors	M H	Ensure regular contact with all concerned and continually monitor completeness of the information provided
8	Completion of Draft Accounts to earlier deadline	M H	Reviewed the approach in previous years (as well as dry run in 2014/15 and 2015/16), working papers and timetable to achieve earlier production.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
9	Potential for changes to the accounts following audit	M H	Earlier production will mean use of estimates and risk of error due to lack of information at date of draft production. Earlier review process has been carried out / earlier review of accounting policies.

Resource and Value for Money Implications

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during the period March through to early June to ensure completion of the Financial Statements by 26th May. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadlines / key milestones will be closely monitored.

Report Author

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Background papers	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2016/17) based on IFRS

Appendices

Appendix A – Accounting Policies 2016/17

Appendix B – Restated CIES, MiRS and EFA

Appendix C – Summary of Changes to the Code of Practice 2016/17

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