REPORT OF:	**FINANCIAL SERVICES** **FINANCIAL SERVICES MANAGER**
TO:	**ACCOUNTS AND AUDIT COMMITTEE**
DATES:	**22nd March 2016**

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Closure of Accounts 2015/16
Accounting Code of Practice update and other related matters

PURPOSE OF REPORT

1. The purpose of this report is to:

   (a) update the Committee on the Accounting Code of Practice for 2015/16;

   (b) inform the Committee of revised arrangements for the public inspection period of the accounts;

   (c) request approval of the Accounting Policies as the basis on which the accounts will be prepared for the financial year ending 31st March 2016;

RECOMMENDATIONS

2. It is recommended that the Committee:

   a) Notes the main changes arising from the 2015/16 Accounting Code of Practice which impact on the preparation of the Council's financial statements for the year;

   b) Note the changes to the publication of the draft statement of accounts and rights of public inspection resulting from the Accounts and Audit Regulations 2015;

   c) Approve the accounting policies for the 2015/16 accounts as set out at **Appendix B**.

ISSUE

Changes to the Code of Practice

3. Since 2010/11 the Council has been required to prepare the annual Statement of Accounts in accordance with International Financial Reporting Standards (IFRS) as adapted in the Code of Practice on Local Authority Accounting in the United Kingdom.

4. The Code is updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) on an annual basis. This report updates the Committee on the following areas which will affect the Council's financial reporting for the 2015/16 financial year:

- Fair Value Measurement (IFRS 13)[1]
- Presentation of financial statements
- Introduction of the concept of current value

Fair Value Measurement

The 2015/16 Code has introduced a new section to reflect the adoption of IFRS 13 *Fair Value Measurement*, requiring local authorities to measure their assets and liabilities and provide disclosures in accordance with IFRS 13 where the Code requires or permits fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Code introduces a single source of fair value measurement guidance that:

- Provides a consistent definition of fair value based on exit price;
- Establishes a clear framework for measuring fair value;
- Specifies the disclosures required to enable users of the accounts to understand the valuation techniques applied in measuring fair value.

Fair value measurement applies to various assets and liabilities (e.g. debtors, creditors, financial instruments, employee benefits). However, as Property, Plant and Equipment (PPE) is the largest component of the Council's balance sheet the remaining commentary focuses on this.

The Code confirms that operational property, plant and equipment should be measured by reference to its service potential and thus operating capacity to deliver the council's services. Only those PPE assets that are classified as surplus assets are required to be measured at fair value. As at the 31st March 2015 the Council held surplus assets of £6m valued at fair value in *existing use*.

For 2015/16 surplus assets will be valued at fair value taking in to account their *highest and best use*. The highest and best use of an asset is that which is physically possible, legally permissible and financially feasible. Taking an example of a tract of surplus land; the 'highest and best use' would, in most cases, be considered residential development unless physical constraints made this impractical or some form of legal restriction/covenant precluded such use of the land.

In support of the Council's accounts for 2015/16 Liberata Property Services have been asked to revalue the Council's stock of surplus assets.

Presentation of Financial Statements

It is generally accepted that local authority accounts are complex and often long documents that can be difficult to understand. Post the implementation of IFRS there has been much focus within the profession on how to simplify the accounts and "how to tell the story"; in particular the links between the management accounts that Councillors receive for internal reporting purposes (i.e. budget performance information) and the position as reported in the published financial statements. Other considerations under this strand include de-cluttering the accounts, removing references to unnecessary information or information that is not material to the readers understanding of the financial position of the Council. We made positive progress on these aspects in the accounts for last year and will look to build on this for 2015/16.

For the Committee's information, a copy of a Grant Thornton publication entitled *A Guide to Local Authority Accounts* is provided at **Appendix A** in advance of the next meeting in July when the accounts will be considered.

In terms of the 2015/16 Code specifically, there is updated guidance which clarifies the reporting requirements for disclosures that support the Movement in Reserves Statement.

[1] International Financial Reporting Standard

Introduction of the concept of current value

As outlined above under Fair Value, the Code requires operational PPE assets to be valued at *current value* rather than *fair value*. This recognises that service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services. This is therefore the basis on which those charged with the stewardship of assets and the management of these scarce resources need to be held to account. The Code therefore does not measure operational property, plant and equipment at fair value but measures the operating capacity of the assets that are used to deliver services. Consequently, the Code introduces a new definition of current value and requires PPE assets which are operational to be measured for their service potential (and not at fair value).

Public Inspection of the Statement of Accounts

5. The requirements for publication of the statement of accounts and the period for public inspection have changed as a result of the Accounts and Audit Regulations 2015. The Committee received a report on the regulations in March 2015 click here (item 8 refers).

6. Previously the inspection period ran for 20 working days. The Council had to give 14 days' notice by public advertisement and the inspection period was followed immediately by the 'appointed day', being the day on or after which electors could ask questions of the auditor. The external auditor set this date and formally notified the Council of it.

7. Under the 2015 regulations the period for public inspection is now 30 working days and for 2016 must include the first 10 working days of July (this means the period must include the 1st to 14th July. The accounts cannot be approved until the conclusion of this inspection period.

8. The report author has to publish a number of documents including the draft accounts (pre-audit), the annual governance statement, a narrative statement and a statement setting out the exercise of public rights to inspect the accounts. The inspection period can only begin the day after all these have been published. The requirement is to 'publish' which must include publication to the Council's website. There is no longer a requirement for external audit to "call the audit".

9. On current plans it is expected that the inspection period for 2015/16 will commence from 16th June ending 30 working days later, just prior to the July meeting of the Committee when we aim to submit the accounts and audit findings report for formal approval. However, the statutory deadline for formal approval and publication of the accounts remains 30th September for 2015/16. This will come forward to the 31st July by the 2017/18 year of audit.

Accounting Policies

10. Accounting policies are defined in the Code as 'the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'. The Code requires that where the Code applies to a transaction, other event or condition, an authority should determine the accounting policy or policies to be applied to that item with direct reference to the requirements of the accounting policies stipulated by the Code. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in as it applies to omissions and misstatements:

    Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

11. The proposed accounting policies under which the 2015/16 Statement of Accounts will be prepared are set out in **Appendix B.** There are no significant changes from those adopted for 2014/15 save primarily for references to fair value as outlined above. The policies as presented have also been shared with external audit and their feedback has been reflected in the updated policies.

12. The Committee is asked to approve the Accounting Policies for 2015/16.

IMPLICATIONS

Policy

13. There are no policy implications arising directly from the contents of this report.

Financial

14. The financial implications are as given in the report.

Legal

15. There are no legal implications arising directly from the contents of this report.

Risk Management

16. There are no new risk management implications arising from the contents of this report.

Health and Safety

17. There are no health and safety implications arising from the contents of this report.

Sustainability

18. There are no sustainability issues arising from the contents of this report.

Community Safety

19. There are no community safety issues arising from the contents of this report.

Equality and Diversity

20. There are no equality and diversity issues arising from the contents of this report.

APPENDICES

Appendix A – Grant Thornton Guide to Local Authority Accounts
Appendix B – Proposed accounting policies for 2015/16 statement of accounts.

LIST OF BACKGROUND PAPERS

None.