

REPORT OF: CHIEF FINANCIAL OFFICER

TO: ACCOUNTS AND AUDIT COMMITTEE

DATES: 18th March 2019

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**Closure of Accounts 2018/19
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 2018/19 (the 'Code');
 - (b) inform the Committee of arrangements for the public inspection period of the accounts;
 - (c) request approval of the proposed Accounting Policies as the basis on which the accounts will be prepared for the financial year ending 31st March 2019;

RECOMMENDATIONS

2. It is recommended that the Committee:
 - a) Notes the main changes arising from the 2018/19 Accounting Code of Practice which impact on the preparation of the Council's financial statements for the year;
 - b) Note the timetable for the publication of the draft statement of accounts and rights of public inspection resulting from the Accounts and Audit Regulations 2015;
 - c) Approve the proposed accounting policies for the 2018/19 accounts as set out at [Appendix A](#).

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 changes which will affect the Council's financial reporting for the 2018/19 financial year:

IFRS 9 – Financial Instruments

Financial Instruments eg investments, invoices for services, are defined '...as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity' (7.1.2.25 of the Code).

The change requires (re)classification of Financial Assets as at 1 April 2018 as appropriate with supporting disclosure notes to inform users of the accounts. An 'Expected Credit Loss (ECL) Model' is required to estimate the credit risk associated with the transaction – and a quantifiable estimate of the risk of default calculated and applied (where material). Previously this was recognised when such a loss was 'incurred'.

No significant changes to credit risk are anticipated since initial recognition, with the likelihood that no material changes to year-end balances will apply.

Much depends on the business model of the Council. For Pendle, whose business model for financial instruments is one of collecting contractual cashflows (compare the objective of making gains from movement in the 'market'), the impact is considered small. For financial assets, where income is relatively reliable and predictable, the Council operates solely to collect payment of principal and interest (SPPI).

In addition, transactions with Central and/or Local Government continue to be considered low risk with no material change to values recorded as at 1 April 2018 and are considered out of scope.

For both financial assets and liabilities, the likelihood is no change to classification, being amortised cost.

IFRS 15 – Revenue From Contracts with Service Recipients

This standard requires the Council to recognise revenue only when its obligations are delivered and accepted by 'service recipients'.

'An authority shall apply this section of the Code and IFRS 15 to a contract...only if the counterparty to the contract is a service recipient. A service recipient is a party that has contracted with an authority to obtain goods or services that are an output of the authority's normal operating activities in exchange for consideration' (2.7.1.4 of the Code).

In most cases any delay between receipt of income and performance of obligations is considered minimal for qualifying, non-statutory services. It is not anticipated that this accounting standard will significantly change the treatment of income in the Council's accounts.

Where payments are received in advance of the Council fully discharging its obligations, payments in advance are appropriately recognised; revenue is disaggregated to recognise only that portion of income received for which the Council has satisfied its performance obligations.

Public Inspection of the Statement of Accounts

5. The requirements for publication of the statement of accounts and the period for public inspection changed as a result of the Accounts and Audit Regulations 2015.

6. Under the 2015 regulations the period for public inspection is now 30 *working* days and for the 2018/19 accounts this period **must** include the first 10 working days of June. As the first day of June falls on a Saturday, the pre-audit version of the accounts must be approved and published no later than Friday 31st May 2019.
7. The Council is required 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.
8. The period for public inspection will then commence from Monday 3rd June 2019 and run through to Friday 12th July 2019. The post-audit version of the accounts cannot be approved by this Committee before the expiry of the public inspection period.
9. The draft calendar of meetings for 2019/20 which will be submitted to Council in May includes a meeting of this Committee scheduled for the 30th July 2019. This will allow time to conclude the formal inspection period, the audit by Grant and the time they need to issue their Audit Opinion by 31st July 2019. The Council must publish its audited accounts together with the Audit Opinion by no later than 31st July 2019. Work undertaken to date (eg Interim Audit) should enable both parties to meet this deadline.

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 2018/19 Statement of Accounts will be prepared are set out in [Appendix A](#).
12. The Committee is asked to approve the Accounting Policies for 2018/19.

IMPLICATIONS

Policy

13. The Council's accounting policies are reviewed annually in compliance with Cipfa's Accounting Code of Practice.

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. The Council reviews its risks regularly and in the context of financial instruments and the Expected Credit Loss Model, will maintain an ongoing assessment of risks associated with its financial assets.

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](#) – Proposed accounting policies for 2018/19 statement of accounts.

LIST OF BACKGROUND PAPERS

None.