

REPORT OF: CHIEF FINANCE OFFICER
TO: ACCOUNTS AND AUDIT COMMITTEE
DATES: 28th July 2020

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Closure of Accounts 2019/20
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 2019/20 (the 'Code');
 - (b) inform the Committee of arrangements for the public inspection period of the accounts, noting changes as a result of the COVID-19 pandemic;
 - (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 2020;

RECOMMENDATIONS

2. It is recommended that the Committee:
 - a) Notes the main changes arising from the 2019/20 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 (Coronavirus) Amendment Regulations 2020;
 - c) Approve the proposed accounting policies for the 2019/20 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. Traditionally, this report has been presented to the March meeting of the Committee for approval of the Council's accounting policies for the financial year just ended. Members will be aware that the scheduled meeting for March 2020 was suspended following the outbreak of the COVID-19 Coronavirus.
5. The Code is updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) on an annual basis. As a consequence of the outbreak of COVID-19, there was much debate about 'slimming down' the Code for production of the 2019/20 Accounts, however it was agreed that no change to the published Code would apply, although the reporting dates would be extended (see later) to allow both practitioners and Auditors sufficient time to conclude their respective work during this challenging time.
6. As in previous years, this report updates the Committee on the schedule of Code changes introduced for the reporting year and outlines the expected impact on the Council:

Explanation of Code approach – The code references that the provisions of IFRS 16 Leases do not apply. The material in IAS 17 Leases continues to be relevant, because the implementation of IFRS 16 has been further delayed until 1 April 2021. However, the implementation of IFRS16 is likely to result in the Council recognising eg lease/rental payment expenses 'on balance sheet'.

The code also clarifies the treatment of useable and unusable reserves. A usable reserve represents resources which the authority might use to support service delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements.

Unusable reserves are not available to use to support service delivery at the reporting date. These reserves arise from either:

- a) Statutory adjustments required to reconcile balances to the amounts chargeable to council tax [or rents] for the year, in order to comply with legislation, or
- b) Accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services.

The code references the use of the 'CIPFA Standard of Professional Practice on Ethics based on the Handbook of the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants' as the most pertinent document for principles in relation to:

- integrity
- objectivity
- professional competence and due care
- confidentiality
- professional behavior

Update to reflect 2018 IASB Conceptual Framework – Provides additional clarity on terminology used in the conceptual framework but no substantial changes to the Council's preparation of accounts.

Closure of Carbon Reduction Commitment Scheme – No impact, the Council isn't part of the scheme.

Apprenticeship levy – No impact likely to the Council. Changes to the accounting treatment of the apprenticeship levy are considered to be below the Council's de minimis threshold (immaterial) but will continue to be assessed and evaluated each year.

Voluntary transfers presentation – No impact to the Council, this change only relates to Scottish local authorities.

Voluntary transfers revaluation gains – No impact to the Council, this change only relates to Scottish local authorities.

Prepayment features with negative compensation – No impact to the Council. It is noted that if the Council does undertake any PWLB external debt re-structuring, the guidance set out in IFRS 9 for accounting for premiums and discounts will be followed. The Code has adopted the amendments to IFRS 9 which have confirmed that negative compensation features (where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest) do not lead to a failure of the solely payments of principal and interest (SPPI) test where the amount is reasonable compensation for the prepayment. The Council's financial assets are held on an SPPI basis where income is considered to be relatively reliable and predictable.

Lender option borrower option clauses – No impact, the Council does not have any Lender option borrower option loans (LOBOs).

Group accounts scope clarification – No impact, not currently applicable as the Council's assessment is the preparation of group accounts is not required..

Public Inspection of the Statement of Accounts

7. 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.
8. Prior to the COVID-19 outbreak, the 2015 regulations required a public inspection of 30 *working days* to include, as a **must**, the first 10 working days of June; unaudited statements being available for publication no later than 31 May 2020.
9. The Ministry of Housing, Communities and Local Government (MHCLG) confirmed changes to the Accounts and Audit Regulations 2015 (for 2019/20 only) via Statutory Instrument (The Accounts and Audit (Coronavirus) Amendment Regulations 2020 (SI 2020/404)).
10. These changes gave Local Authorities more flexibility, removing the above requirement to commence the public inspection period to include the first 10 working days of June. Instead, Local Authorities must commence the public inspection period on or before the first working day of September 2020, meaning unaudited accounts being prepared and published no later than 31 August 2020. MHCLG guidance advises Councils to publicise this change to the reporting period on their website when the public inspection period would normally commence, explaining why there is a departure from the normal practice. The Council placed such a notice on its website on 29th May 2020.
11. 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. As above, the inspection period can only begin the first working day after all these have been published and no later than 31 August 2020. The requirement is to 'publish' which must include publication to the Council's website.

12. The Council expects to produce its unaudited Accounts by 31st July 2020. This will allow time to conclude the revised, formal inspection period, the audit by Grant Thornton and the time they need to issue their Audit Opinion by 30th November 2020.
13. The Council must publish its audited accounts together with the Audit Opinion by no later than 30th November 2020.

Accounting Policies

14. 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.

15. The proposed accounting policies under which the 2019/20 Statement of Accounts will be prepared are set out in [Appendix A](#).
16. The Committee is asked to approve the Accounting Policies for 2019/20.

IMPLICATIONS

Policy

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

Financial

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

Legal

19. As outlined in the report, the Accounts and Audit (Coronavirus) Amendment Regulations 2020 (SI 2020/404) will apply to the 2019/20 financial year.

Risk Management

20. 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

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Proposed accounting policies for 2019/20 statement of accounts.

LIST OF BACKGROUND PAPERS

None.