

AUDIT COMMITTEE REPORT

Report Title	Accounting Policies and Statement of Accounts changes
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 th March 2017
Policy Document:	Yes
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr B Eldred

1. Purpose

- 1.1 The purpose of the report is to bring the Accounting Policies to Audit Committee for approval.

2. Recommendations

- 2.1 It is recommended that Audit Committee approve the Accounting Policies for the 2016/17 Statement of Accounts, as set out at **Appendix 1**.
- 2.2 The Audit Committee notes that the S151 Chief Finance Officer as part of the closure of accounts guidelines will increase the accruals de-minimus from £1,000 to £5,000 for 2016/17.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The accounting policies outline how Northampton Borough Council will account for all income, expenditure, assets and liabilities held and incurred during the financial year.
- 3.1.2 It is good practice to bring these policies to those charged with governance for approval each year.
- 3.1.3 The accounting policies for the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting. Where there is no specific guidance in the CIPFA

Code, the Authority has developed its own accounting policy, which is aimed at creating information, which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
- Represent faithfully the financial position, financial performance and cash flows of the entity;
- Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
- Are neutral i.e. free from bias;
- Are prudent; and
- Are complete in all material respects.

3.1.4 The accounting policies of the Authority are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authorities accounts.

3.1.5 The accounting policies of the Authority as far as possible have been developed to ensure that the accounts of the Authority are understandable, relevant, reliable and comparable, and free from material error or misstatement.

3.1.6 The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and certain categories of financial instrument.

3.2 Integrated Closure Team

3.2.1 As part of the LGSS restructure a new Integrated Closure Team has been formed. This oversees the preparation of accounts for Northampton Borough Council, Northamptonshire County Council, Cambridgeshire County Council and Milton Keynes Council.

3.2.2 When considering issues for Northampton Borough including accounting policies they have been reviewed along with those of the other authorities. This has led to improvements in the format of the accounts as detailed in Section 3.4 of this report.

3.3 Changes to Accounting Policies

3.3.1 There are four changes to the underlying accounting policies from the policies approved and included in the audited Statement of Accounts 2015/16.

3.3.2 IFRS 13 Fair value measurement was adopted in 2015-16 prescribing the methodology of valuation of assets and liabilities, which is set out in policy L. Surplus assets was omitted and has now been included as being measured at fair value. The value of Surplus Assets was not material in 2015/16 being only £326k in value therefore there was no requirement for this to be referred to in the Council's ISA260 report. It was however agreed with KPMG that this omission would be rectified as part of this annual review.

- 3.3.3 The review of policy L has also highlighted an error in the stated valuation methodology of Vehicles and Assets under Construction. This has been amended from fair value to depreciated historic cost for vehicles and historic cost for asset under construction. These asset categories have always been held on the newly stated basis therefore there is no financial change to the accounts as a result of this amendment.
- 3.3.4 The third change is due to the change in the format of the Comprehensive Income and Expenditure Statement (CIES) required by the Code of Practice for Local Authority Accounting in the United Kingdom 2016/17. The CIES shows revenue expenditure and income for the year, in line with proper practices. The format of the net cost of services within this core statement has followed a service analysis (known as SeRCOP) for a number of years. This service specific analysis allowed comparability between councils however it was in a different style to internal financial monitoring that followed a Directorate format.

The new code requires the format of the service analysis to change from SeRCOP to a Directorate format along the lines of that used to report monthly financial monitoring. This will make it reconcilable to the internal financial reporting to Council and be more familiar to members and readers of the accounts.

Policy C Cost of Services referred to SeRCOP and the allocation of support costs. This policy has therefore been renamed Overheads and Support Costs that are allocated to service segments in accordance with the authority's arrangements for accountability and performance.

- 3.3.5 In the unlikely event that any changes to these accounting policies are identified as part of the creation of the 2016/17 accounts, these will be brought back to the Audit Committee within the 2016/17 Draft Statement of Accounts at the July meeting.

3.4 Changes in the format of the accounts

- 3.4.1 As referred to in 3.3.4 above the most significant change which is being introduced in the 2016-17 Code of Practice is to the presentation of the Comprehensive Income and Expenditure Statement (CIES). The CIES shows revenue expenditure and income for the year, in line with proper accounting practice. Previous editions of the Code had required the Net of Cost of Services within the CIES to be broken down in to specific service headings. (Referred to as SeRCOP headings). This was to ensure that all authorities presented their statements in the same way, and to allow comparability between authorities. Whilst this allowed comparability from one authority to another it meant that the link between the Authority's monthly financial reporting (MFR) and the statutory accounts was difficult to follow, because the MFR is set out with the Authority's internal Directorate structure and the accounts are set out based on SeRCOP headings. The change to the Code for 2016-17 allows the Authority to display the Net Cost of Services within the CIES based upon its internal reporting structure rather than using SeRCOP headings. This means that the link between the MFR and the accounts position will be clearer for the reader of the accounts to follow. Please see **Appendix 2** for an example of how this change will look in the accounts.
- 3.4.2 Another change in the 2016-17 Code is the introduction of a new disclosure in the accounts called the Expenditure and Funding Analysis (EFA) (also

shown in **Appendix 2**). This partly replaces the segmental analysis shown in previous accounts. This statement and the accompanying disclosure notes are intended to provide reconciliation between the budget monitoring outturn position shown in the MFR and the accounting position shown in the CIES.

- 3.4.3 The review of the accounts across LGSS Councils has resulted in a number of improvements to the statement of accounts including a standard Narrative Report and Glossary. The core financial statements, including the CIES and Balance Sheet, are to be given more prominence nearer the front of the accounts. The more general items such as accounting policies are to be moved towards the rear of the document as they are usually required for reference purposes.
- 3.4.4 This review has also highlighted a number of notes to the accounts that are not material and can therefore be removed in accordance with the Code. This will speed up the production of the accounts and their exclusion will often remove the need to audit these notes. This will assist external audit in auditing the accounts within the reduced timeframe. The notes to be excluded include Publicity Costs and Building Control Costs.
- 3.4.5 Other notes have been removed by including more detail in the core financial statements making the accounts easier to understand. For example, the required detail is shown within the CIES and Cash Flow Statements rather than the reader having to cross reference to the notes to the accounts to see the detail. This is an area that Audit Committee members commented on when reviewing the 2015/16 accounts, and officers have responded to this where possible.
- 3.4.6 The above changes will reduce the size of the accounts by about ten pages.

3.5 Accruals de-minimus

- 3.5.1 Many authorities are currently considering increasing their accruals de-minimus as part of their plans to achieve the new reduced statutory reporting deadlines of 31 May for the draft accounts and 31 July for the final accounts with effect from the financial year 2017/18. An increased accruals level for manual accruals that aren't system generated reduces the volume of financial adjustments to the accounts, assisting in speeding up their production. An analysis of the volume and total value of manual accruals that would have been input to the 2015/16 accounts for different de-minimus levels is shown in the table below. Increasing the accruals limit for manual accruals to only doing those more than £10,000 would have halved the number of transactions whilst not having a material effect on the accounts:

	Current £1,000		£5,000		£10,000		£15,000		£20,000	
	£	No.	£	No.	£	No.	£	No.	£	No.
GF <£1k	9,795	50								
GF >£1k	506,979	195	419,569	127	324,878	97	306,470	81	210,484	73
HRA	(1,005,679)	28	(989,039)	22	(981,520)	21	(944,466)	18	(926,963)	17
Other	(767,086)	36	(751,209)	20	(723,591)	14	(713,234)	13	(713,234)	13
Total	(1,265,786)	259	(1,320,679)	169	(1,380,234)	132	(1,351,230)	112	(1,429,713)	103

- 3.5.2 A comparison has been carried out with other LGSS Councils and some neighbouring Councils of a similar size and type, with their de-minimus levels being between £5,000 and £15,000. This is pointing towards the Council's

current accruals de-minimus value being too low at £1,000. The consideration of increasing the accrual de-minimus was also recommended by KPMG as part of the 2015/16 ISA260 report.

- 3.5.3 It was therefore recommended to the S151 Chief Finance Officer to increase the accruals de-minimus level to £10,000. However the final decision taking into account the fact that external audit have rated the Council audit as high risk is to only increase the level to £5,000 for the 2016/17 accounts, with the level being reviewed again in future years.

3.6 Recommendations

- 3.6.1 The Committee approves the 2016/17 accounting policies as appended.
- 3.6.2 The Audit Committee notes that the S151 Chief Finance Officer as part of the closure of accounts guidelines will increase the accruals de-minimus from £1,000 to £5,000 for 2016/17.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The report agrees the accounting policies for Northampton Borough Council.

4.2 Resources and Risk

- 4.2.1 The Accounting Policies outline how the Council will account for all income, expenditure, assets and liabilities held and incurred during the financial year.
- 4.2.2 If the Council does not comply with the required standards there is a risk that its Statement of Accounts could receive an adverse audit opinion.
- 4.2.3 There are no resource requirements.

4.3 Legal

- 4.3.1 There are no legal implications arising from this report.

4.4 Equality

- 4.4.1 There are no equalities implications arising from this report.

4.5 Consultees (Internal and External)

- 4.5.1 These policies have been discussed with the Council's auditors, KPMG, who have confirmed they are in line with their expectations.

4.6 Other Implications

- 4.6.1 There are no other implications.

5. Background Papers

- 5.1 Statement of Accounts for Northampton Borough Council 2015/16.
- 5.2 Code of Practice for Local Authority Accounting in the United Kingdom 2016/17 Accounts.

- 5.3 Code of Practice for Local Authority Accounting in the United Kingdom 2016/17 Accounts – Guidance notes.
- 5.4 Service Reporting Code of Practice for Local Authorities 2016/17.

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