

AUDIT COMMITTEE

URGENT BUSINESS Accounting Policies used in the Preparation of the Statement of Accounts 2018/19

20th February 2019

Report of Accountancy Manager

PURPOSE OF REPORT

This report seeks approval from Members in respect of the changes to the Council's Accounting Policies for the 2018/19 financial year.

This report is public

RECOMMENDATIONS

- 1. The Audit Committee is asked to approve the accounting policies, as set out in Appendix 1, incorporating the identified changes.**

1.0 Introduction

1.1 Accounting policies are the specific principles, conventions, rules and practices applied by the Council in preparing and presenting its financial statements. They should contain only policies that are relevant to the circumstances of the Council and address material transactions. They should be subject to annual review and agreement by those charged with governance

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) has adopted International Financial Reporting Standard (IFRS) 15 – 'Revenue from contracts with customers' and IFRS 9 – 'Financial instruments' with effect from 2018/19.

1.3 The Council's accounting policies have been amended to reflect these changes to the Code and also the materiality of its transactions. The specific changes relate to the accruals of income (page 1) and financial instruments sections (pages 6-9). To highlight the changes for the purposes of this report, additions to the accounting policies from the previous year are highlighted and shown in italics and deletions are shown with a red strike-through at Appendix 1. Changes have also been made to the format and presentation of several polices.

2.0 Details

2.1 The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper accounting practices, for the financial year ending 31

March 2019. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA and The Local Authority (Scotland) Accounts Advisory Committee (LASAAC)) supported by International Financial Reporting Standards.

2.2 In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently.

IFRS 15

International Financial Reporting Standard (IFRS) 15 – 'Revenue from contracts with customers' replaces International Accounting Standard (IAS) 11 – 'Construction contracts' and IAS 18 – 'Revenue and related interpretations'. The objective of the standard is to provide information to users of the financial statements regarding the nature, amount, timing and uncertainty of revenue from contracts, as revenue is only recognised as and when the performance obligations of the contract are satisfied. The principle in IFRS 15 for local authorities is that they should recognise revenue from contracts to reflect the transfer of goods or services to customers and the amount to which the authority expects to be entitled for that transfer. It excludes leases, financial instruments, insurance contracts, council tax and non-domestic rates income.

This standard is anticipated to have a limited impact on the Council's accounts.

IFRS 9

IFRS 9 - 'Financial instruments' replaces IAS 39 – Financial instruments: Recognition and measurement'. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39. The change may potentially result in more investments classified as 'fair value through profit and loss' where any gains or losses will impact on the general fund reserves of the Council as they arise. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was sold. Additionally, any potential losses on investments are also to be charged to the revenue account in case actual losses are incurred in the future.

3.0 Conclusion

3.1 Revisions have been made to the Council's accounting policies for 2018/19 to reflect the new accounting standards and the Council's material transactions

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

Not Applicable

LEGAL IMPLICATIONS

S21 (1) of the Local Government Finance Act 2003 (the Act) provides that the Secretary of State by regulation may make provision about accounting practices to be followed by a local authority. The Secretary of State may also, pursuant to subsection (1A) of the Act issue guidance about the accounting practices to be followed by a local authority. Lancaster City

Council, pursuant to s21 (1B) must have regard to any guidance issued under subsection (1A).

Pursuant to s 21 (2) of the Act, where legislation to which s21 of the Act applies references 'proper practices', in relation to local authority accounts, this means the accounting practices which the local authority is required to follow by virtue of an any enactment or which are contained in a code of practice or other document which is identified for the purposes of s21 by regulations made by the Secretary of State.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom is a code of practice identified by regulations made by the Secretary of State (Regulation 31 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

This report and the Accounting policies referred to meet the Council's obligation to comply with the Code of Practice

FINANCIAL IMPLICATIONS

None directly arising from this report

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

Not Applicable

DEPUTY SECTION 151 OFFICER'S COMMENTS

Failure to complete the Statement of Accounts in line with the CIPFA Code of Practice may result in an adverse opinion from the Council's external auditors.

MONITORING OFFICER'S COMMENTS

Has no comments to make on this report.

BACKGROUND PAPERS

None

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