

AUDIT COMMITTEE

23 March 2022

Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2021/22

Report of Chief Finance Officer

PURPOSE OF REPORT

The report sets out the Council's proposed accounting policies and critical judgements to be adopted in completing the 2021/22 Statement of Accounts.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. Approves the Council's proposed accounting policies to be adopted in completing the 2021/22 Statement of Accounts, as set out in Appendix 1
2. Notes the critical judgements made by management when producing the Statement of Accounts. as set out in Appendix 2

1.0 INTRODUCTION

- 1.1 This report presents the significant accounting policies and critical judgements that will be used in the preparation of the 2021/22 Statement of Accounts and summarises the changes from 2020/21 that have been introduced because of amendments to the Code of Practice on Local Authority Accounting 2021/22 (the Code), or as part of the Council's annual review process. They should contain only policies that are relevant to the circumstances of the Council and address material transactions. In line with best practice both should be subject to annual review and agreement by those charged with governance

2.0 ACCOUNTING POLICES

- 2.1 In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies must be disclosed as a note to the annual accounts, and a copy of the policies can be found at Appendix 1. There have been no significant changes from the policies used to prepare the 2021/22 Statement of Accounts.

3.0 INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS 16)

- 3.1 IFRS 16 was meant to have been introduced for Local Authorities from 1 April 2020 which meant that the annual accounts for 2020/21 should have been the first set of accounts produced in accordance with this standard. However, due to COVID-19 and the additional pressure Local Authorities are facing in these unprecedented times, the Financial Reporting Advisory Board (FRAB), announced the deferral of IFRS 16 implementation to 2022/23 which would have required the annual accounts for 2022/23

to be the first set of accounts produced in accordance with this standard. With a 1 April 2022 implementation date, a note advising of this change should be included in the 2021/22 accounts

- 3.2 The currently International Accounting Standard 17 Leases (IAS17) draws a distinction between finance leases, which are captured by the Council on its balance sheet, as opposed to operating leases, which are not captured. IFRS 16 removes the finance/ operating lease distinction, (subject to some exceptions). From 2022/23 the Council must recognise every lease on its balance sheet. The lease is recognised as a liability, while the subject of the lease i.e., property or equipment appears as an asset.
- 3.2 IFRS 16 is designed to improved levels of accuracy and transparency to the reporting process. In practical terms officers will need to identify and review the existing lease arrangements in the forthcoming year.
- 3.3 CIPFA has issued an exceptional consultation in February 2022 on 'emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/3 Code'. In the consultation, the proposal is to defer the implementation of IFRS 16 for a further year to 1 April 2023. Therefore, if the deferral is approved the Council's 2021/22 accounts will not disclose the impact of an accounting change required by a new standard that has been issued but not yet adopted. The Council will await the outcome of the consultation and the financial statement for 2021/22 will be amended accordingly.

4.0 CRITICAL JUDGEMENTS

- 4.1 In line with IFRS and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These are shown at Appendix 2.
- 4.2 The appendix contains several critical judgements relating to valuations of the Councils assets and the pre-payment of its employer pension contributions for the 2020/21 – 2022/23 triennial period.

5.0 DETAILS OF CONSULTATION

- 5.1 Consultation has taken place with the Council's External Auditors, Deloitte LLP.

6.0 OPTIONS AND OPTIONS ANALYSIS

- 6.1 The options that Audit Committee Members might consider in relation to the contents of this report are:
- a) not to approve any of the accounting policies or note the critical judgements.
 - b) not to approve some of the accounting policies or note the critical judgements.
 - c) to approve all the accounting policies and note the critical judgements
- 6.2 The preferred option is option C at paragraph 5.1.

7.0 CONCLUSION

- 7.1 Revisions have been made to the Council's accounting policies for 2021/22 to reflect the new accounting standards and the Council's material transactions

APPENDICES

Appendix 1 – Proposed Accounting Policies 2021/22

Appendix 2 – Critical Judgements 2021/22

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not Applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

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

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

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to make on this report.

BACKGROUND PAPERS

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