

AUDIT COMMITTEE

22 July 2020

Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2019/20

Report of Chief Finance Officer

PURPOSE OF REPORT

This report seeks approval from Members in respect of the changes to the Council's Accounting Policies for the 2019/20 financial year.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. approves the accounting policies, as set out in Appendix 1, incorporating the identified changes.
2. notes the critical judgements made by management when producing the Statement of Accounts.

1.0 Introduction

- 1.1 This report presents the significant accounting policies that will be used in the preparation of the 2019/20 Statement of Accounts and summarises the changes from 2018/19 that have been introduced as a result of amendments to the Code of Practice on Local Authority Accounting 2019/20 (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. They should be subject to annual review and agreement by those charged with governance
- 1.2 The report also explains the requirement to disclose the critical judgements made by management when producing the Statement of Accounts.

2.0 Accounting Policies

- 2.1 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 changes from the policies used to prepare the 2018/19 Statement of Accounts.
- 2.2 International Financial Reporting Standards (IFRS) 16 Leasing, as per the 2019/20 Code of Practice was due to be introduced for Local Government from 1 April 2020. However, due to Covid-19 the implementation has been deferred until 2021/22. More detail on this is provided in section 4 of this report.

3.0 Critical Judgements

3.1 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.

3.2 Critical Judgements include, which school's property, plant and equipment and Private Finance Initiative (PFI) schemes should be included on the Council's balance sheet, which entities fall within the Council's group boundary, the properties that should be classified as investment property and the election of the Council's airport investment.

3.3 The Critical Judgement relating to the Council's upfront payment of its Lancashire County Council pension contributions has been updated to reflect the final year of the existing upfront payment period and the intention to prepay the contribution for the 2020/21 – 2022/23 triennial period.

4.0 International Financial Reporting Standard (IFRS) 16

4.1 IFRS 16 was meant to have been introduced for Local Authorities from 1 April 2020 which means that the annual accounts for 2020/21 should have been the first set of accounts produced in accordance with this standard. The Code of Practice on Local Authority Accounting requires the Council to disclose as a note in the 2019/20 accounts, information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2019/20 Code.

4.2 However, due to Covid-19 and the additional pressure Local Authorities are facing in these unprecedented times, on 20 March 2020, the Financial Reporting Advisory Board (FRAB), announced the deferral of International Financial Reporting Standard 16 (IFRS 16) implementation to 2021/22

5.0 Details of Consultation

5.1 Consultation has taken place with the Councils External Auditors, Deloitte LLP

6.0 Options and Options Analysis (including risk assessment)

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 Officer Preferred Option

The preferred option is option C at paragraph 6.1.

7.0 Conclusion

7.1 Revisions have been made to the Council's accounting policies for 2019/20 to reflect the new accounting standards and the Council's material transactions

8.0 Appendices

8.1 Appendix 1 – Proposed Accounting Policies 2019/20

Appendix 2 – Proposed Critical Judgements 2019/20

**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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