AUDIT COMMITTEE – 25 APRIL 2014

Title of paper:	**REVIEW OF ACCOUNTING POLICIES**	
Director(s)/ Corporate Director(s):	Carole Mills Deputy Chief Executive/Corporate Director & CFO	**Wards affected:** All
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Other colleagues who have provided input:	None	

Recommendation(s):

1	Review and agree the Statement of Accounting Policies for inclusion in the 2013/14 annual accounts.
2	Review and agree the proposals where International Financial Reporting Standards (IFRS) allow a degree of choice.

1. REASONS FOR RECOMMENDATIONS

1.1 Part 3 of the Annual Accounts and Audit Regulations 2011 (the Regulations) require the City Council to produce an annual Statement of Accounts. In accordance with IFRS, the Statement of Accounts must include a statement of accounting policies.

1.2 The Regulations also require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 30 June. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2013/14 Statement of Accounts is produced.

1.3 In addition, where IFRS allows a degree of choice, Audit Committee should be aware of, and confirm the choices made.

2. BACKGROUND

2.1 The draft 2013/14 accounting policies are included in Appendix A. There are no significant changes to the accounting policies from 2012/13 but they have been reworded into plain language for the benefit of the reader. In order to give the main focus to the core financial statements, only the critical Accounting Policies will be included in the body of the Statement of Accounts with a full version shown as an appendix.

2.2 Critical Accounting Policies

The critical accounting policies provide the fundamental bases for producing the Statement of Accounts and warrant particular consideration. These policies have therefore been reproduced below:

Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet

Government Grants and Contributions
Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

Charges to Revenue for Non-Current Assets
Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

Valuation of Non-Current Assets
Generally non-current assets are valued initially at cost and subsequently revalued at fair value; the amount that would be paid for the asset in its existing use. The main exceptions are infrastructure, which is generally valued at depreciated historical cost, council dwellings, which are valued at Existing Use Value for Social Housing and heritage assets, which are valued at market value by an external valuer.

Interests in Companies and Other Entities
Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council’s interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses

2.3 Choices made under IFRS

For some policies the IFRS provides different options that can be used. The choices made in these instances have been applied consistently over the years, however, it would be prudent for Audit Committee to reaffirm the choices made. The key proposals are detailed below:

De Minimus Capital Expenditure
All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet:

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Componentisation
Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. The Council has chosen to only apply componentisation where the value of the asset is in excess of £3m.

Depreciation (including amortisation of intangible assets)
Certain PPE components and Intangible Assets are written down over time and charged to revenue. IFRS allows the Council to assess the period and choose methodology. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Dwellings, buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years

2.4 The draft accounting polices will also be reviewed by the external auditors, KPMG, and therefore are still subject to change. Any major changes will be highlighted to Audit Committee at its next meeting.

3. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Annual Accounts 2012/13
Accounting and Audit Regulations 2013
Code of Practice on Local Authority Accounting in the United Kingdom 2013/14