

## AUDIT COMMITTEE – 24 November 2017

<b>Title of paper:</b>	Review of Accounting Policies 2017/18	
<b>Director(s)/ Corporate Director(s):</b>	Laura Pattman Strategic Director of Finance	<b>Wards affected:</b> All
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<b>Recommendation(s):</b>		
<b>1</b>	Review and agree the Statement of Accounting Policies for inclusion in the 2017/18 annual accounts (within appendix 1).	
<b>2</b>	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 2015 (the Regulations) requires the Council to produce an annual Statement of Accounts. In accordance with International Financial Reporting Standards (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 31 May. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2017/18 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 2017/18 accounting policies are included in Appendix 1. The finance team review the accounting policies each year to ensure that they comply with accounting standards. Any policies which are no longer relevant or have no material effect to the Statement of Accounts for 2017/18 are removed. Following the 2017/18 review there are no significant changes to the accounting policies from 2016/17. All changes from the 2016/17 accounting policies have been marked blue.
- 2.2 **Critical Accounting Policies**  
The critical accounting policies provide the fundamental bases for producing the Statement of Accounts and warrant particular consideration. The proposed 2017/18 Critical Accounting Policies are:
  - 2.2.1 **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.

### 2.2.2 Government Grants and Contributions

Government Grants and contributions are credited to income in the Comprehensive Income and Expenditure Statement (CIES) only when there is reasonable assurance that any attached conditions will be met. Specific grants are credited to the relevant service line, while non-ring fenced and capital grants are credited to Taxation and Non-specific grant income. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors.

### 2.2.3 Charges to CIES 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 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.

### 2.2.4 Valuation of Non-Current Assets

Generally non-current assets are valued initially at cost and subsequently revalued at fair value. The main exceptions are infrastructure, which are 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.

### 2.2.5 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 provide 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:

### 2.3.1 De Minimis 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
Heritage Assets	0.005

### 2.3.2 **Componentisation**

Where an asset consists of significant components that have different useful lives, 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.

### 2.3.3 **Depreciation (including amortisation of intangible assets)**

Certain Property Plant and Equipment components and Intangible Assets are written down over time and charged to revenue. International Financial Reporting Standards allow the Council to assess the asset life as well as the depreciation method. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years
- Dwellings, based upon major components current price data allocated on a straight line basis over the useful life.

2.4 The draft accounting policies 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 a future meeting.

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

3.1 None.

## **4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

4.1 Statement of Accounts 2016/17

4.2 Accounting and Audit Regulations 2015

4.3 Code of Practice on Local Authority Accounting in the United Kingdom 2017/18