

## AUDIT COMMITTEE – 22 February 2019

<b>Title of paper:</b>	Review of Accounting Policies 2018/19	
<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 Accounting Policies for inclusion in the 2018/19 annual Statement of 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 2018/19 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 2018/19 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 2018/19 are removed.

The following accounting standards have been adopted in 2018/19:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiatives
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The application date and initial adoption date of the above standards is 1 April 2018.

On initial application, there is no requirement to restate preceding year financial information for IFRS 9 & IFRS 15. There is no requirement to provide information relating to the 2017/18 financial year. These are not expected to have a material effect on the Statement of Accounts at this stage.

Amendments to IAS 7 require additional disclosures regarding the changes in liabilities arising from financing activities.

Any changes to the accounting policies in relation to IFRS 9, IFRS 15 and IAS 7 are included in Appendix A.

Amendments to IAS 12 are only applicable to the group company accounts and not the Council's single entity accounts.

In addition to the above, the accounting policy for council dwellings depreciation has been adjusted from unit cost to asset value basis. This simpler approach complies with the Code and ensures consistency of treatment across all property types within Property, Plant and Equipment on the Council's balance sheet. The adjustment does not result in a material difference to the comparable figures reported in the 2017/18 Statement of Accounts.

All changes from the 2017/18 accounting policies are shown in blue italics in Appendix 1.

## 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 2018/19 Critical Accounting Policies are:

### **Accruals of Expenditure and Income**

The revenue and capital accounts of the Council are maintained on an accrual basis i.e. activity is accounted for in the year it takes place, not simply when cash payments are made or received.

Revenue from contracts with service recipients, whether for services or the provisions of goods, is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

Expenses for goods or services are recorded as expenditure when the goods or services are received by the Council rather than when payments are made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor (including contract asset and contract liability where appropriate) is recorded in the Balance Sheet.

### **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/portfolio 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.

### **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.

### **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.

### **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:

### **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:

	<b>£m</b>
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010
Heritage Assets	0.005

### **Componentisation**

Where an asset consists of significant components that have different useful lives and/or depreciation methods, 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 Property, Plant and Equipment components and Intangible Assets are written down over time and charged to revenue. IFRS allows the Council to choose the asset

life over which the write down occurs 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, dwellings, 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 policies will also be reviewed by the external auditors, Grant Thornton UK LLP, and are therefore 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 2017/18  
Accounting and Audit Regulations 2015  
Code of Practice on Local Authority Accounting in the United Kingdom 2018/19