

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	28 March 2022
Subject:	Statement of Accounts 2021/22 – Accounting Policies

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2021/22 Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund;
- The broad requirements of the Accounts and Audit Regulations 2015, and the proposed changes to the reporting timescales announced by the government in December 2021;
- The review of the Council's Accounting Policies for both the main financial statements and the Lincolnshire Pension Fund statements.
- The recent consultation by the Chartered Institute of Public Finance and Accounting (CIPFA) on time-limited changes to the Code of Practice to help alleviate current delays to the publication of audited financial statements.

Recommendation(s):

The Executive Director of Resources asks the Members of the Audit Committee to:

1. Note the changes required to the Statement of Accounts from the Code of Practice 2021/22;
2. Note the amended deadlines of 31 July 2022 for the preparation of draft accounts, and 30 November 2022 for publication of the audited Statement of Accounts 2021/22;
3. Approve the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2022.
4. Approve the Statement of Accounting Policies (Appendix B) to use in preparing the Local Government Pension Scheme (LGPS) Pension Fund accounts for the financial year ending 31 March 2022.

5. Note the contents of the government's guidance document on Measures to Improve Local Audit Delays, shown in full at Appendix C;
6. Note the CIPFA consultation on time-limited changes to the Code of Practice to help alleviate current delays to the publication of audited financial statements.

Background

- 1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2021/22 (the Code). This ensures the accounts are prepared using "proper accounting practice". The Council is also required to comply with the Accounts and Audit Regulations 2015 in preparing, submitting for audit and publishing its accounts.

Changes to the Code of Practice on Local Authority Accounting for 2021/22: Lincolnshire County Council

- 1.2 The Code of Practice for 2021/22 has introduced some revisions and clarifications to the accounting requirements for the 2021/22 Statement of Accounts. For the main accounts, the key changes are:
 - a) The accounting treatment of the Dedicated Schools Grant is confirmed following the introduction of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. Where a local authority has a deficit in respect of its schools' budget, calculated in accordance with regulation 14, it shall charge this deficit to the Dedicated Schools Grant adjustment account. This Dedicated Schools Grant adjustment account shall be regarded as an unusable reserve. This Council is not expected to have a such a deficit for the 2021/22 accounts.
 - b) The Code refers Councils to certain paragraphs of International Accounting Standard (IAS) 1 Presentation of Financial Statements, with regards to estimation uncertainty. The standard sets out that where there is a major area of uncertainty about an estimation made, and that this may result in a material change to the carrying value of an asset or liability within the next financial year, details of the nature of the assets / liabilities and their carrying amounts as at the end of the reporting period shall be disclosed. Additional examples of disclosures that could be made include: the nature of the assumptions; the sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected. Note 3 of our accounts covers estimation uncertainty, and the provisions of IAS 1 in this regard will be considered when preparing Note 3. The areas of estimation uncertainty are most likely to be property, plant and equipment valuations, pension liabilities, fair value measurements of financial assets and financial liabilities where these cannot be measured in an active market.
 - c) Changes to the Subsequent Measurement of Financial Assets and Financial Liabilities section of the Code have been made to reflect changes in the basis for determining the contractual cash flows, as a result of interest rate benchmark reform. The reform involves the replacement of some inter- bank offered rates with alternative benchmark rates. The valuations of our current financial instruments are not calculated with

reference to the interest rate benchmarks which were the subject of these reforms so there is no impact of this on our accounts.

- d) Confirmation that it is anticipated that the initial application of IFRS 16 Leases will be 1 April 2022, so will not be applicable for the 2021/22 accounts (see paragraphs 1.4 and 1.5 for subsequent information about this).

1.3 There will also be changes in accounting standards in the future, which may impact on the Council in the 2022/23 accounts. The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to publish a bulletin which will interpret any changes in accounting standards for the public sector. Once this is available, the impacts will be assessed and included in the 2021/22 Accounts in the disclosure notes for Accounting Standards that have been Issued but have not yet been Adopted (note 1 of the main accounts and note 2 of the Pension Fund accounts).

1.4 On 4 February 2022 CIPFA issued a consultation document proposing some time-limited changes to the Code of Practice for 2021/22. The proposals concerned two areas: the valuation of property, plant and equipment at 31 March 2022, and the implementation of the new leasing standard IFRS 16. With regard to the valuation of operational property plant and equipment, the main proposal was to allow the option to pause professional revaluation of these assets and instead create a valuation using appropriate published indices. For the leasing standard the proposal was to defer the implementation date (currently 1 April 2022) for a further year.

1.5 We have responded to this consultation and await the publication of a response and outcomes from CIPFA. If there are any changes to our Statement of Accounts following this, they will be highlighted at a future Audit Committee meeting.

Accounts and Audit Regulations 2015

1.6 The Accounts and Audit Regulations 2015 set out the requirements for local authorities to prepare an annual statement of accounts, to publish such accounts and to have those accounts audited. The regulations also allow for the statement of accounts to be inspected by members of the public within a certain timeframe.

1.7 In December 2021 the Department for Levelling Up, Housing and Communities (DLUHC) published a guidance document about measures to improve local audit delays. This document is shown at **Appendix C** and covers measures aimed at both audit firms and preparers of accounts. It includes proposals for shorter term measures relating to accounting and audit requirements, as well as longer term measures to help stabilise the market and address supply issues.

1.8 This committee is asked to particularly note the following areas set out in the guidance:

- Section 2A – further funding to be provided to local bodies to help support costs relating to strengthening financial reporting, increased auditing requirements and the implementation of other Redmond Review recommendations.
- Section 2B – The Chartered Institute of Public Finance and Accountancy will publish strengthened guidance on audit committees by April 2022, followed by a consultation on this guidance.
- Section 2C – DLUHC to provide for targeted training events for audit committee chairs, to be delivered by the Local Government Association.

- Section 4B – the deadline for publishing audited accounts is to be extended to 30 November 2022 for the 2021/22 accounts and will then be 30 September for the following 6 years beginning with the 2022/23 accounts.
- Section 4, paragraph 55 – the deadline for preparing draft accounts will be 31 July 2022 and will then be 31 May for the 2022/23 accounts onwards.

1.9 At the time of writing this report, the Accounts and Audit regulations had not been amended to reflect the guidance set out above, but it is expected that they will be. We will continue to work to the 31 May deadline for preparing draft accounts and plan to publish these by 30 June 2022 so that they can be presented to the Audit Committee on 11 July 2022 alongside a training session on the accounts.

Statement of Accounting Policies

1.10 An important section of the published accounts is the statement of accounting policies. This summarises the rules and codes of practice used to prepare the accounts, together with any estimation techniques adopted. The policies for the Council's main financial statements have been reviewed and are attached at **Appendix A** for consideration and approval by this Committee. The policies for the Council's LGPS Pension Fund financial statements have been reviewed and are attached at **Appendix B** for consideration and approval by this Committee.

1.11 Two changes have been made to the accounting policies for 2021/22 which impact on the main accounts and these are marked in ***bold italics*** in **Appendix A**. They are:

- Accounting Policy 4 Non-Current Assets - Property, Plant and Equipment. In the Disposal of Property Plant and Equipment section, the policy clarifies that the temporary flexibility to use capital receipts to fund revenue transformation costs has been extended by the government, but that we have not used this flexibility in the two reporting years shown in this Statement of Accounts.
- Accounting Policy 35 Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves. In the Reserves section new text has been added to say that any accumulated deficit on the dedicated schools grant (DSG) must be transferred to a Dedicated Schools Grant Adjustment Account, which is an unusable reserve. The policy also clarifies that currently we do not have a deficit.

1.12 There are no changes to the Code of Practice for 2021/22 which will have an impact on the Pension Fund Accounts, so no changes have been made to our accounting policies. The existing accounting policies are shown in **Appendix B**.

Conclusion

- 2.1 The amended accounting requirements, disclosures and timescales, as required by the Code of Practice and the Audit and Accounts Regulations, together with the DLUHC guidance published in December 2021, will be incorporated into the Statement of Accounts for 2021/22.
- 2.2 The Statement of Accounts will be prepared using the Accounting Policies approved by the Audit Committee at this meeting.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Statement of Accounting Policies for main financial statements 2021/22
Appendix B	Statement of Accounting Policies for LGPS Pension Fund financial statements 2021/22
Appendix C	Guidance Document on Measures to Improve Local Audit Delays, published by DLUHC December 2021

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22	Executive Director of Resources

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