

AUDIT COMMITTEE

Subject Heading:

Accounting Policies 2017/18

SLT Lead:

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Policy context:

This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2017/18

Financial summary:

There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2017/18 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes will be highlighted to the committee in the Statement of Accounts report in July 2018.

- The report presents the accounting policies applicable to the financial year 2017/18 and will be reflected in the published statement of accounts.
- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies on an annual basis

Appendix A includes the revised accounting policies for 2017/18.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to financial year 2017/18.

REPORT DETAIL

1. Introduction

- 1.1 This report sets out the accounting policies that will be applied during the financial year 2017/18 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.
- 1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.
- 1.3 The draft audited Statement of Accounts for 2017/18 will be presented to the July 2018 Audit Committee. The accounting policies statement will be included within the accounts and any changes made during the course of

the closedown programme and/or audit will be highlighted and explained by officers.

2. Purpose of Accounting Policies

- 2.1 The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".
- 2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:
- Are **relevant** – providing appropriate information on the stewardship of Authority monies.
 - Are **reliable** – financial information can be relied upon and is without bias and free from error, within the bounds of materiality and has been prudently prepared.
 - Allow **comparability** – the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
 - Are **understandable** – though financial reports have to contain certain information, they have to be understandable.
 - Reflect **material** information – significant transactions must be incorporated in the financial reports.
 - Prepared on a **going concern** basis – the assumption that the authority will continue in operational existence for the foreseeable future.
 - Prepared on an **accruals** basis – accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period.
- 2.3 The accounting policies currently adopted by the Council are in line with the concepts set out in 2.2.

3. Contents of Accounting Policies

- 3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:
- **Property Plant and Equipment** – the basis for valuing major long-term assets, such as council dwellings and offices.
 - **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.

- **Depreciation** – Depreciation is charged to spread the value of an asset over its useful life.
- **Provisions and reserves** – A **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
- **Accruals of Income and Expenditure** – The Council raises accruals to comply with the concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the liability
- **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
- **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. Changes in Accounting Policies for 2017/18

- 4.1** The application of most accounting policies is consistently applied from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.
- 4.2** There is one minor change proposed to Havering's accounting policies for the 2017/18 accounts. The proposed amendments are listed below:

XX Property, Plant and Equipment

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position.

Legal implications and risks:

There are no Legal implications arising from this report.

Human Resources implications and risks:

There are no Human Resources implications arising from this report.

Equalities implications and risks:

There are no Equalities implications arising from this report.