

AUDIT COMMITTEE

Subject Heading:	Accounting Policies 2019/20 & 2020/21
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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 2019/20 and 2020/21
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	<input type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input checked="" type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2019/20 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 to the 2019/20 policies will be highlighted to the committee in the Statement of Accounts report in July 2020.

- The report presents the accounting policies applicable to the financial year 2019/20 and will be reflected in the published statement of accounts. These

policies will also provide the basis for the 2020/21 policies. At this stage there are no changes for 2020/21 identified other than the Leasing Standard IFRS 16 will have been adopted by Local Government – this will bring leased assets worth over £5,000 onto the balance sheet where the lease period exceeds one year.

- 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. Adoption of the 2020/21 policies also means draft policies are in place for the start of the financial year to which they relate.

Appendix A includes the revised accounting policies for 2019/20 and 2020/21 combined into one document – differences are highlighted. The policies for both years are the same except where marked for leased assets and the changes to policy section. Relevant dates will be updated for the 2020/21 policies.

RECOMMENDATIONS

The Committee is asked to note and invited to comment on the accounting policies applicable to financial year 2019/20 and 2020/21.

REPORT DETAIL

1. Introduction

- 1.1 This report sets out the revised accounting policies that will be applied during the financial years 2019/20 and 2020/21 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 audited Statement of Accounts for 2019/20 will be presented to the July 2020 Audit Committee for approval. 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 2019/20

- 4.1 The application of most accounting policies is applied consistently 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 are no material changes proposed to Havering's accounting policies for the 2019/20 accounts.

5 Changes in Accounting Policies for 2020/21

No material changes to the 2020/21 policies are expected other than the requirement to bring all leased in assets worth over £5,000 onto the balance sheet from 1 April 2021. Officers are working to identify all leased assets and will agree the proposed accounting treatment with EY prior to the 2020/21 closedown. This change in accounting treatment should not have a material impact upon the Council's usable financial resources.

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 Council's financial position.

Legal implications and risks:

There are no apparent legal implications in noting the content of the Report.

Human Resources implications and risks:

no implications

Equalities implications and risks:

no implications