

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

20 March 2023

ACCOUNTING POLICIES

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

- 1.1 To note there are no changes, at present, to the County Council's Accounting Policies for the current financial year 2022/23
- 1.2 To note potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

2.0 BACKGROUND

- 2.1 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.
- 2.2 The County Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). An updated Code of Practice, applicable for 2022/23 was issued in August 2022.
- 2.3 In addition to considering required changes to the County Council's accounting policies for 2022/23, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2023/24 and beyond) to bring to the Committee's attention.

3.0 CHANGES IN ACCOUNTING POLICY FOR 2022/23

- 3.1 The need for changes in accounting policy can arise from:
 - (i) mandatory changes under the annual *Code of Practice on Local Authority Accounting* which require a new or revised accounting policy to be adopted by all local authorities

- (ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances
 - (iii) changes in legislation enacted by the Government issuing a Statutory Instrument
- 3.2 Any changes required to the County Council's accounting policies for 2022/23 would therefore usually arise as a result of the updated *Code of Practice on Local Authority Accounting* issued by CIPFA in August 2022.
- 3.3 CIPFA issued an '*Update to the Code and Specifications for Future Codes for Infrastructure Assets*' in January 2023 as a result of a Statutory Instrument enacted by the Government which came into effect on 25 December 2022.
- 3.4 The '*Update*' provides amended specifications on the disclosure on gross cost and accumulated depreciation for infrastructure assets and allows local authorities a temporary relief for reporting infrastructure assets gross cost and accumulated depreciation until 31 March 2025.
- 3.5 The enactment of the Statutory Instrument resulted in a delay to the County Council's 2021/22 SOFA being approved by the external auditors as the impact on the accounts had to be fully understood and considered.
- 3.6 Officers are currently working with external auditors to agree on final amendments to the 2021/22 SOFA in relation to infrastructure assets and as yet no changes to the County Councils accounting policies have been identified. However, if any changes to accounting policies are required for both the 2021/22 and 2022/23 SOFA the Committee will be notified.
- 3.7 As previously reported to the Audit Committee the implementation of IFRS 16 *Leases* was deferred until the 2024/25 financial year as a result of an emergency consultation in October 2022. This will not have an impact on the County Council's accounting policies.
- 3.8 The Accounting Policies ultimately determined for 2022/23 will be reported to Members on 26 June 2023 as part of the report accompanying the draft SOFA for 2022/23. At this stage, therefore, Members are asked to note the current position.

4.0 **OTHER KEY CHANGES TO THE 2022/23 FINANCIAL STATEMENTS**

- 4.1 Changes reflected in the 2022/23 updated Code may be required to be incorporated into the County Council's accounts but may not necessarily impact on the County Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.
- 4.2 The 2022/23 SOFA will again include narrative to explain the financial impact of the Covid-19 pandemic on the County Council.

5.0 STATEMENT OF ACCOUNTS TIMETABLE 2022/23 AND 2023/24

- 5.1 Published in September 2020, the Redmond review on the effectiveness of external audit and transparency of financial reporting in local authorities recommended that the deadline for publishing audited local authority accounts should be extended.
- 5.2 In the Government's response, Ministers committed to amending the accounts publication deadline as recommended for 2 years, subject to review.
- 5.3 In December 2021 a statement issued by Department of Levelling-up Housing and Communities (DLUHC), 'Measures to Improve Local Audit Delays', referenced the above review and recommended extending the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts then 30 September for 6 years commencing in 2022/23. Although not yet confirmed it is anticipated that the statutory deadline for publishing audited local authority accounts for 2022/23 will be 30 September 2023.
- 5.4 On 16 February 2023 DLUHC published a consultation asking for views as to whether the deadline for the publication of draft local authority accounts should be 31 May 2023, as per the current statutory requirement, or if this should be extended. The consultation closed on 2 March and an outcome is awaited.
- 5.5 As a result of Local Government Reorganisation, the final SOFA for each of the 8 legacy Councils of the new North Yorkshire Council will need be approved by the Section 151 Officer (Corporate Director of Resources) and Members (the Audit Committee) in advance of certification and publication. In order to ensure effective use of resources, the intention is to produce the draft SOFAs by 31 May in line with the current deadline for publication. It is therefore, anticipated that the Draft SOFAs will be reported to the Audit Committee on 26 June 2023.
- 5.6 Further consultation is required with the external auditors for both the County Council and District and Borough Councils in order to confirm the proposed timetable for the 2023/24 audit and reporting of the final SOFAs. A further update will be provided to the Committee once audit plans have been established.

6.0 POTENTIAL CHANGES IN THE PIPELINE FOR FUTURE YEARS

- 6.1 CIPFA have recently consulted on a draft *Code of Practice on Local Authority Accounting* for 2022/23 and provisional changes for future years beyond 2023/24, with the key potential changes set out in **Appendix A**.
- 6.2 The extent to which future changes will actually be fully implemented by CIPFA remains uncertain however and will be subject to further confirmation and guidance.

7.1 **RECOMMENDATION**

7.2 That Members:

- (i) note the current position on potential changes to the accounting policies for 2022/23 (**paragraph 3.6**).
- (ii) note the changes to the Statement of Accounts Timetable for 2023 (**paragraph 5.6**)
- (ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2023/24 onwards) (**paragraph 6.1 and Appendix A**).

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March 2023

**POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY
ACCOUNTING POLICIES IN THE PIPELINE
FOLLOWING RECENT CIPFA CONSULTATION:**

- 1.0 CIPFA have consulted on and confirmed proposed changes to the 2022/23 Code of Practice which was published in August 2022 and have also provided indications of further potential changes that are likely to be reflected in updates to the 2023/24 Code and beyond.
- 2.0 Leases**
- 2.1 CIPFA's current intention is to adopt IFRS 16 – Leases from 2024/25.
- 2.2 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of IFRS 16 from 2019/20, but this was deferred by 12 months due to issues raised by Central Government. The adoption of IFRS 16 was again delayed until 2022/23 and now again until 2024/25 due to the impact of the Covid-19 pandemic on local authorities' planning and preparedness for the new standard.
- 2.3 IFRS 16 extends the current definition of a finance lease to cover all leases, from the lessee's position. An operational lease will no longer exist from a lessee's perspective. The change will result in accounting implications as the value of the lease needs to be capitalised and recorded as a 'Right of Use' asset on the lessee's balance sheet. A corresponding liability must also be recognised on the balance sheet, extending over the life of the lease, to reflect the lease payments still to be made.
- 2.4 IFRS 16 will have an impact on all the main statements in the SOFA including the balance sheet, comprehensive income and expenditure statement and cash flow statement. A number of new disclosure notes will also be required to be published in the SOFA.
- 2.5 Further changes as a result of adopting IFRS 16 relate to assets being leased under a 'peppercorn' agreement coming on balance sheet, the measurement of liabilities from leases, PFI and service concession arrangements which include an element of annual indexation.
- 2.6 Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases will need to be reclassified and reported on the County Council's balance sheet, which could potentially have prudential borrowing implications.