

# Update on Accounts Changes for 2007/08

AUDIT COMMITTEE

Date: 22nd April 2008

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Author: Director of Finance

Wards Affected: None

## Purpose

- To inform the Audit Committee of updates to the Statement of Recommended Practice in preparation of receiving the annual Statement of Accounts at its June meeting.

## Recommendation

The Audit Committee is asked to:

- Note the updated requirements to the Annual Statement of Accounts that will be presented at the June meeting.

## 1. Reasons

- 1.1 This report informs Members of the context in which the Statement of Accounts must be produced, its overarching objectives and the required contents. It is intended that Members will be better prepared to scrutinise the accounts at the June meeting with the knowledge of how financial reporting requirements have changed since the 2006/07 accounts.

## 2. Timetable

- 2.1 The 2007/08 Statement of Accounts must be approved by the Audit Committee (the designated Committee of the Council for such purpose) by the 30<sup>th</sup> June 2008. The timetable to achieve this was presented at the last Audit Committee.

## 3. Context

- 3.1 The key requirements for the statement of accounts are set out in a document published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA). This Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP) is the checklist of minimum requirements that the accounts must contain.
- 3.2 The SORP is annually updated by CIPFA to ensure that local government accounting practice remains in line with changes to national and international financial standards. Changes implemented to the 2007/08 SORP are less fundamental than previous year's updates, but continue to pave the way for convergence of accounting standards.
- 3.3 The overriding requirement of the SORP is that the accounts 'presents fairly' the financial position of the authority. In doing this, the SORP sets out the proper

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Further information on the subject of this report can be obtained from *Darren Stevens* on *Direct Dial No.01793 463323* or Email [dstevens@swindon.gov.uk](mailto:dstevens@swindon.gov.uk).

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accounting practices for the statement of accounts. It is against the requirements of the SORP that the external auditors will base their audit opinion and material non-compliance will result in the accounts being 'qualified' i.e. the auditors' opinion is such that reliance cannot be placed on the accuracy of the financial statements.

3.4 The SORP is prepared on the basis that the intention of the statement of accounts is to give electors, taxpayers, Members, employees and other interested parties clear information about the authority's finances. It should answer such questions as:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year-end?

3.5 For comparative purposes between authorities, the SORP also requires a consistent pattern of presentation and compliance with the CIPFA Best Value Accounting Code of Practice (BVACOP) service analysis.

3.6 In producing the accounts, it is also important that interpretation and explanation is clear and prominent. The SORP requires an explanatory foreword that should highlight and explain the more significant features of the accounts. The supporting narrative to the accounts should also be in plain language, with technical terms explained in a glossary.

#### 4. Changes to the SORP for 2007/08

4.1 As mentioned previously the SORP is updated annually by CIPFA (after a period of consultation with practitioners and relevant bodies). Last year saw significant changes to the content, format and layout of the statements that should be included in the accounts. Members are reminded that the order in which the statements are presented is now prescribed by the SORP.

4.2 Though there are other items that have been updated in the 2007 SORP, the two areas that provide the greatest changes are:

##### *Accounting Standards on Financial Instruments*

4.3 Changes involving the application of Financial Reporting Standards (FRS) 25, 26 and 29 are very technical in nature. They focus on the accounting treatment of financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

4.4 The definition of financial instrument is broad in nature but the main area affected by the changes is in relation to Treasury Management activities. As a

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result, officers within the Treasury Section have undertaken an impact assessment of the changes for Swindon and the main types of product that would have led to additional accounting treatment have not been used by the authority. Examples include LOBOs (Lending Option, Borrowing Option) and where authorities give low rates (below actual cost) loans to external bodies. Therefore the impact of these changes are minimal for Swindon.

#### *Capital Balance Sheet Accounts*

- 4.5 The Committee will remember that changes last year resulted in the removal of aspects of Local Authority accounting that were not in-line with national and international standards. This trend of harmonisation continues with the removal of the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). These are superseded by the Revaluation Reserve (RR) and Capital Adjustment Account (CAA).
- 4.6 The RR will act as the account through which all fixed asset revaluation increases, and depreciation charges relating to those increases, will be taken. It will only take revaluation decreases (impairments) to the extent that there has been a prior revaluation gain on the relevant asset. These are the only entries this account will take. All other transactions will go through the CAA.
- 4.7 Though these are changes to accounting treatment, the SORP does not require prior period adjustments for the implementation of the accounts. Instead, the RR will come in to existence at midnight 1<sup>st</sup> April 2007, with the balances contained in the FARA and CFA being combined to form the opening balance on the CAA.

#### *Accounting Policies*

- 4.8 The previously identified changes to accounting treatment are those that the authority is required to follow under the SORP. The financial policies of the Authority have not changed to those presented in the 2006/07 accounts, but are reviewed as part of the closedown process to ensure completeness and currency.

### Alternative Options

- None. The Council is required to follow the SORP in producing its annual Statement of Accounts.

#### **Risk Management**

##### *Financial and Procurement Implications*

- The ability to produce the Council's accounts within statutory timescales to the standards expected impacts on the Use of Resources judgement.

##### *Legal / Human Rights Implications*

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- There are no Legal/Human Rights issues.

*Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)*

- There are none.

### **Consultees**

- None

### **Background Papers and Appendices**

- None