

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Audit Committee
<b>Date of Meeting:</b>	22nd June 2016
<b>Subject:</b>	Critical Judgements And Assumptions Made During The Preparation Of The Statement Of Accounts
<b>Report of:</b>	Simon Dix, Finance and Asset Management Group Manager
<b>Corporate Lead:</b>	Rachel North, Deputy Chief Executive
<b>Lead Member:</b>	Councillor D J Waters, Lead Member for Finance and Asset Management
<b>Number of Appendices:</b>	Two

## **Executive Summary:**

The purpose of this report is to explain to the Audit Committee the critical accounting judgements and key sources of estimation uncertainty that will be used in preparing the 2015/16 accounts.

## **Recommendation:**

**To APPROVE the critical accounting judgements that will be used in completing the 2015/16 annual accounts and to note the key sources of estimation uncertainty.**

## **Reasons for Recommendation:**

The Code of Practice on Local Authority Accounting in the United Kingdom requires disclosure of the judgements that management have made in the process of applying the authority's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Also it requires disclosure about major sources of estimation uncertainty at the end of the reporting period.

## **Resource Implications:**

There are no direct financial implications arising from the approval of the critical judgements although should Members not approve them it may impact on the final outturn.

## **Legal Implications:**

There are no direct legal implications arising from the approval of the critical judgements. However Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations concerning the accounting practices to be followed by local authorities. The relevant regulations in this case are the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 which provides that the accounting practices contained in the Code of Practice of Local Authority Accounting in the United Kingdom are proper practices. Any requirements of the Code should therefore be followed.

## **Risk Management Implications:**

There is a risk of the accounts being qualified if the proper accounting practices are not followed or if they deviate substantially from the Code of Practice on Local Authority Accounting.

**Performance Management Follow-up:**

Grant Thornton will audit this as part of the year end audit and will issue an opinion in September 2016.

**Environmental Implications:**

None.

**1.0 INTRODUCTION/BACKGROUND**

**1.1** The Council is required to produce an annual statement of accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. In order to do this the Council has to apply its accounting policies (which Audit Committee approved in March 2016) to produce them.

**2.0 CRITICAL ACCOUNTING JUDGEMENTS**

**2.1** In applying the authority's accounting policies the Council has to make certain judgements about complex transaction or those involving uncertainty about future events. The relevant judgements are those that have the most significant effect on amounts recognised in the financial statements. Judgements made in arriving at estimates are excluded.

**2.2** The disclosure of critical judgements should enable users of the financial statements to better understand how the accounting policies are applied and to use these in making comparisons between authorities regarding the basis on which management make these judgements.

**2.3** A new judgement included this year is with regards to our shareholding in Ubico Ltd. We have concluded that we do not have control, joint control or any significant influence over the running of the company, for accounting purposes, and so have treated it as an investment in our accounts.

**3.0 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

**3.1** In preparing the annual accounts there are areas where estimates are made. These include useful lives and valuations of properties which are estimated by qualified valuers, the amount of arrears that will not be collected (which is estimated based on past experience of collection of different types of debt) and the liability for future pension payments, which is estimated by qualified actuaries. Details of these are shown in Appendix B.

**3.2** This assumption is to do with the provision for business rates and how we have calculated the figure by using historical data on success rates and outcomes (more information can be found in the Appendix).

**4.0 OTHER OPTIONS CONSIDERED**

**4.1** None.

**5.0 CONSULTATION**

- 5.1 None.
- 6.0 **RELEVANT COUNCIL POLICIES/STRATEGIES**
- 6.1 None.
- 7.0 **RELEVANT GOVERNMENT POLICIES**
- 7.1 Local Government Act 2003 and Accounts and Audit Regulations 2011.
- 8.0 **RESOURCE IMPLICATIONS (Human/Property)**
- 8.1 None.
- 9.0 **SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)**
- 9.1 None.
- 10.0 **IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**
- 10.1 None.
- 11.0 **RELATED DECISIONS AND ANY OTHER RELEVANT FACTS**
- 11.1 Approval of the Statement of Accounting Policies – Audit Committee on 18<sup>th</sup> March 2015.

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**Background Papers:** Statement of Accounting Policies – 2015/16 – Audit Committee 23 March 2016.

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**Appendices:** Appendix A – Critical Judgements in Applying Accounting Policy  
Appendix B – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty