



west midlands
police and crime
commissioner



AGENDA ITEM 08

**ACCOUNTING POLICIES, CRITICAL
ACCOUNTING JUDGEMENTS AND KEY
SOURCES OF ESTIMATION
UNCERTAINTY**

1. PURPOSE OF REPORT

- 1.1 This report highlights the accounting policies used in the Group's 2016-17 Statement of Accounts and asks the Audit Committee to review and accept the accounting policies detailed at Appendix A. The report also details the critical judgements that have been made in applying the accounting policies and the assumptions made about the future and other major sources of estimation uncertainty. The report will also explain any key technical accounting changes that have been adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (known as the Code) that have influenced the accounting policies and will affect what is presented and disclosed in the Statement of Accounts for 2016-17.

2. BACKGROUND

- 2.1 The preparation of the Statement of Accounts is governed by the Account and Audit Regulations (2015), in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) known as the Code. The Code is compliant with the International Financial Reporting Standards (IFRS) framework, which is a set of constantly evolving accounting rules used internationally to support the formation of financial statements in the private and public sector. This evolving state means that new accounting standards are formed on a regular basis along with re-interpretations of existing standards. Each year the Code is updated with additional technical requirements based on CIPFA's interpretation of these new and amended standards and the dates that these should be introduced to local authority accounts. As a result the accounting policies are reviewed annually to ensure that they remain current and relevant.
- 2.2 Audit Committee members will be aware that under Section 151 of the Local Government Act 1972, the Chief Finance Officer is charged with the proper administration of the Group's financial affairs and as such must select suitable

accounting policies and make judgements and estimates that are reasonable and prudent. The requirement to close down the accounts earlier highlights that the Audit Committee should have an opportunity to consider these accounting policies, the critical judgements and the major sources of estimation uncertainty that are going to be applied to the accounts in advance of their publication with the draft accounts.

3. THE ACCOUNTING POLICIES FOR 2016-17

- 3.1 The Group's accounting policies are the specific principles, conventions, rules and practices that are applied in preparing and presenting the annual Statement of Accounts. The policies have to be disclosed as a note within the annual accounts and are usually presented prior to the main accounting statements. The proposed accounting policies are included at Appendix A with any changes highlighted.
- 3.2 One of the Accounting Policies included in 2015/16 has been removed as this explained the costing principles of the Service Reporting Code of Practice. The Comprehensive Income and Expenditure Statement was previously presented with headings prescribed by SeRCOP and Police Objective Analysis, however from 2016/17 it is required to present the CIES on the basis of the organisational structure under which the organisation operates.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

- 4.1 In applying the Group's accounting policies the PCC has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are set out in Appendix B.
- 4.2 The Statement of Accounts contains estimated figures that are based on assumptions made by the PCC about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty actual results could be different from the assumptions and estimates. The items to be presented in the Group Balance Sheet at 31 March 2017 for which there is a risk of adjustment in the following financial year are set out at Appendix B.

5. THE MAIN TECHNICAL CHANGES FOR 2016-17

- 5.1 The most significant change for 2016/17 is the introduction of a new Expenditure and Funding Analysis note as a result of the Telling the Story review of improvements to the presentation of Local Authority financial statements. This has led to amendments to the reporting requirements within the Movement in Reserves statement and the Comprehensive Income and Expenditure statement. The EFA note reconciles the net expenditure chargeable to the General Fund to the CIES based on the authority's internal segmental analysis. The MiRS has been streamlined and the Cost of Services within the CIES will be presented based on organisational structure.
- 5.2 Amendments to IAS1 are to be applied to the accounts from 2016/17. These include updates to ensure information is not obscured by aggregation or providing immaterial disclosures. That materiality is applied to all disclosures even where required by

another standard. Subtotals should be used consistently and should not be presented with greater prominence than any other subtotals or totals. Understandability and comparability should be considered when determining the order of the Notes to the Accounts.

- 5.3 Other Standard changes which might influence minor changes to the Accounts are in IAS 19 and the 2015 Pension SORP where the format of the Net Asset Statement and Fund Account have been updated and additional Fair value disclosures could be included within the notes. Employee contributions to defined benefit schemes have been clarified in their application to period of service and service cost. Also IAS 24 includes an addition to the definitions of related parties to include disclosures relating to Key Management Personnel.

6. RECOMMENDATIONS

- 6.1 The Audit Committee is asked to consider the contents of this report and accept the Accounting Policies to be used in the Group's 2016/17 Statement of Accounts.
- 6.2 The Audit Committee is asked to review and accept the critical judgements used in applying the accounting policies and the assumptions about the future and other major sources of estimation uncertainty.

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