

REGULATORY APPRAISAL

LOCAL GOVERNMENT, WALES

ACCOUNTS AND AUDIT (WALES) (AMENDMENT) REGULATIONS 2007

Background

1. Sections 39 and 58 of the Public Audit (Wales) Act 2004 enable the Assembly to make Regulations applying to local government bodies (other than local probation boards) whose accounts are required to be audited in accordance with Part II of the 2004 Act. Section 39 allows the Assembly to make, by Regulations, provisions with respect to:
 - the keeping of accounts;
 - the form, preparation and the statement of accounts;
 - the deposit of accounts;
 - the publication of information relating to the accounts and the statement of accounts; and
 - the exercise of any rights of objection conferred by sections 29, 30 and 31 of the Act.
2. Such provisions are contained in the Accounts and Audit (Wales) Regulations 2005 and require authorities in Wales to complete specific accounting statements, in line with the requirements of the Statement of Recommended Practice (SORP) published by The Chartered Institute of Public Finance and Accountancy (CIPFA). The SORP is based on approved accounting standards and prescribes the accounting treatment and disclosures for all normal transactions of a local authority and sets out the proper accounting practices required for the Statements of Accounts, by section 21(2) of the Local Government Act 2003.
3. There has been a significant change in accounting terms for the year ended 31 March 2007, which will require local authorities to complete different accounting statements and this is reflected in the 2006 SORP published on 15 June 2006. The changes include the replacement of the Consolidated Revenue Account with an Income and Expenditure Account, the Statement of Total Recognised Gains and Losses replaces the Statement of Total Movement of Reserves and a Balance Sheet will replace the Consolidated Balance Sheet.

Purpose and intended effect of the measure

4. These Regulations make a technical amendment to the Accounts and Audit (Wales) Regulations 2005 as follows:-
 - Regulation 2 amends Regulation 7(1) of the 2005 Regulations by deleting some of the list of statements to be included in the statement of accounts such as the consolidated revenue account and consolidated balance

sheet and by making provision for bodies to have regard to proper practices as prescribed in section 21(2) of the Local Government Act 2003, in relation to accounts;

- introduce a new requirement for completion of a statement of account for the Fire fighters pension fund, if any, to be included.

Risk Assessment

5. The Account and Audit (Wales) Regulations 2005, include provisions with regard to the preparation of a statement of accounts for each year in line with proper practices with reference to section 21(2) of the Local Government Act 2003, and in turn the requirements of A Statement of Recommended Practice: Code of Practice on Local Authority Accounting in the United Kingdom (SORP). These proposed Regulations will require authorities in Wales to complete specific accounting statements required in the SORP. Without this change both proper practices and Regulations will conflict when authorities start the process of completing annual accounts at the end of this financial year.

Options

Option 1: Do Nothing

6. If regulations are not brought forward there will be conflict between regulations and proper accounting practices reflected in the 2006 SORP when authorities start the process of completing annual accounts at the end of this financial year. It would need to be tested at the time by external auditors and authorities but we understand that it may result in authorities having to complete two sets of accounts.

Option 2: Make the Legislation

7. These proposed Regulations would have the desired result of complementing SORP when authorities come to complete annual accounts at the end of the financial year.

Benefits

8. These Regulations will clarify the requirements of bodies when completing annual accounts and have the advantage of ensuring that provision is made for a statement relating to the fire fighters pension fund due to be introduced by legislation during 2007. Also, by including a provision for bodies to make regard to proper practices in relation to accounts it will reduce the requirements for further amending legislation to reflect the Chartered Institute of Public Finance and Accountancy's (CIPFA) ongoing amendment of its codes of practice, which are aimed at more closely reflecting UK Generally Accepted Accounting Practice (UK GAAP).

Costs

9. There are no costs for the Welsh Assembly Government as a result of these Regulations. For local Authorities there would likely be some additional costs if these Regulations are not brought forward resulting from the need to possibly complete two sets of accounting statements.

Competition Assessment

10. This is not applicable to these Regulations.

Consultation

With Stakeholders

11. A six week consultation took place between 9 October 2006 and 17 November 2006 on the policy behind the proposed Regulations. Those consulted were: Chief Executives County & County Borough Councils; Directors of Finance County & County Borough Councils; Chief Police Officers of Welsh Police Authorities; Directors of Finance of Welsh Police Authorities; Chief Fire Officers of Welsh Fire Authorities; Directors of Finance of Welsh Fire Authorities; Chief Officers of National Park Authorities; the Chartered Institute of Public Finance and Accountancy; the Wales Audit Office; and the Welsh Local Government Association. The reduced consultation period was agreed with the Welsh Local Government Association.
12. Four responses were received - three from Local Authorities and one from the Wales Audit Office – all of which either had no objections to the proposed amendments, or supported them. The Wales Audit Office made specific reference in regard to the explanatory foreword continuing to preface the statement of accounts as opposed to being one of the statements contained within it. It also made a number of additional suggestions that were not consulted on and not considered necessary at this stage but would be subject to consideration in the long term for making further amendments to the Regulations. (A summary of responses is at Annex A.) As a result, the proposed Regulations have been framed to reflect the policy changes that were consulted on.

With Subject Committee

13. These Regulations were notified to the Local Government and Public Services Committee, via the list of forthcoming legislation, on 19 October 2006 (LGPS(2)-14-06 (p. 3), item no: LG98) and have remained on the list ever since. The Regulations were not identified for detailed scrutiny.

Review

14. These Regulations will continue to be reviewed their efficacy with local government finance groups, Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission in Wales, as is necessary by the policy division.

Summary

15. In summary, the intention is to update these Regulations to require that local authorities produce information in relation to their financial statements in accordance with proper practices.

Annex A

RESPONSES TO THE CONSULTATION ON THE ACCOUNT & AUDIT (WALES) (AMENDMENT) REGULATIONS 2007

In summary, the responses received indicated that consultees either had no objections to the proposed amendments, or supported them. One of the respondents suggested a further minor drafting change in regard to the explanatory foreword.

Those consultees, together with relevant extracts and/or other substantive comments, are summarised as follows:

Caerphilly CBC, 9 October 2006 - supportive of the proposed amendment to the Regulations, which seems an eminently sensible suggestion, to avoid having to amend the Regulations, to reflect CIPFA's ongoing amendment of its codes of practice, aimed at more closely reflecting UK GAAP.

Flintshire CC, 9 November 2006 - has no particular response to make on this straightforward, uncontroversial amendment.

Rhondda Cynon Taff CBC, 8 November 2006 - has no objections to the proposed amendments

Wales Audit Office on behalf of the Auditor General, 17 November 2006 – agree there is a need to amend the existing regulations to reflect the changed requirements and support the replacement of the detailed list of accounting statements and related notes to be included in the Statement of Accounts (SoA) with a requirement to prepare in accordance with proper practice.

It would be beneficial for the Accounts and Audit Regulation to continue to make it clear that the explanatory foreword prefaces, as opposed to being an integral part of, the statement of account.

WAG official's response – revised instructions to DLS for the amendment Accounts and Audit regulations will continue to require the statement of accounts to be prefaced by the explanatory foreword

For the avoidance of doubt, the amending Regulations should, as with the Local Authorities (Capital Finance and Accounting)(Wales) Regulations 2003, make specific reference to the SoRP and the Best Value Accounting Code of Practice issued by CIPFA.

WAG officials response - There is already explicit statutory support for proper practices in the Capital Finance and Accounting Regulations, therefore, further legislative prescription to support this is not considered necessary.

The Wales Audit Office made a number of additional suggestions that were not consulted on and not considered necessary at this stage but would be subject to consideration in the long term for making further amendments to the Regulations