

Committee:	Performance and Audit Committee	Agenda Item
Date:	23 June 2011	7
Title:	International Financial Reporting Standards (IFRS).	
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Summary

- 1 The Committee is responsible for approving the audited annual Statement of Accounts prior to publication on 30 September.
- 2 The draft 2010/11 Statement of Accounts is in preparation and will be certified by the Assistant Chief Executive – Finance by 30 June. The Committee will receive the draft accounts for information on 18 August. The audited accounts will be presented to the Committee for approval on 29 September.
- 3 The 2010/11 accounts are being prepared in accordance with International Financial Reporting Standard (IFRS), which have been applied to local government accounts for the first time this year. This is the most significant reform of accounting rules for many years, and represents a major technical challenge for the Council.
- 4 The Performance Select Committee received a version of this report in February, to brief Members on the key concepts and issues arising from IFRS. As the new Committee largely comprises Members who were not part of the previous Committee, it is necessary to introduce Members to the concepts at this stage to help lay the ground for receiving the accounts in August and September. Informal workshops for Members will be held prior to the meetings in August and September.

Recommendations

- 5 To note the report.

Background Papers

- 6 International Reporting Standards.

CIPFA Code of Practice on Local Authority Accounting.

Accounts and Audit Regulations.

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Finance	None
Health & Safety	None
Legal implications/ Human Rights	Detailed in the report
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

- 4 In preparing prior years' Statutory Accounts, councils followed the requirements of UK Generally Accepted Accounting Principles (UK GAAP). In 2007 the Government decided that all public sector accounts will be prepared using International Financial Reporting Standards (IFRS).
- 5 Government departments and the NHS have already implemented IFRS. Councils are required to implement IFRS with effect from the 2010/11 Statement of Accounts.

Financial Impact

- 6 To limit the financial impact of the accounting changes on council budgets, the Government introduced various statutory overrides to give councils financial protection. For example, under IFRS the accounts have to include the cost of untaken annual leave, but the statutory override means this is taken out again so there is no impact on the bottom line.
- 7 The estimated cost of implementing IFRS, excluding officer time, is £31,000.

Organisational Impact

- 8 Preparing the Statutory Accounts under IFRS has introduced significant accounting and presentational changes, and substantially increased the level of disclosure required, with a consequent impact on the workload of the finance team.
- 9 Other sectors have experienced a 50% increase in the size of the statutory accounts publication; a similar effect is expected for councils.
- 10 The change has required an extensive review of the Council's systems/data and involved many areas of the Council; especially HR, Legal, as well as Finance. IFRS implementation is by necessity a Council-wide project in order to meet stringent governance, audit and reputational expectations associated with this major change.

Implementation Arrangements

11 Impact Assessment

In 2010, a review of the Code's requirements and its impact on the Council's financial arrangements was drafted, to facilitate robust project management; identify relevant work streams, allocate resources and determine information needs from specialist areas, both within the council and externally (for example Valuers). The assessment identified the following key areas of risk:

- accounting for Property, Plant and Equipment,
- accounting for Lease arrangements,
- accounting for Government Grants and Contributions and
- the extensive disclosure requirements in comparison to UK GAAP.

In all these areas the resources required to identify the relevant transactions, evaluate the arrangements made and technically account for the arrangement has been substantial. To meet stringent audit and publication deadlines advice from both external and internal experts has been obtained.

A timetable is detailed at Appendix A. The first key milestone was restating Balance Sheets as at 31 March 2009 and 31 March 2010. This has been completed and is being audited. The audit team has informally provided feedback to Officers that there are no material issues arising.

12 Progress to date

Accounting for Property, Plant and Equipment

Arrangements were put in place for the Asset Management service of Braintree District Council to assist in compiling a robust asset register for 2010/11. This work is now complete and has enabled finance officers to reclassify assets within the balance sheet in line with IFRS rules. In addition an external valuer has performed a full inspection valuation of all the Council's land and property assets in line with IFRS principles.

Accounting for Leases

IFRS has brought in a major change in the way councils account for lease arrangements, which can result in a change in classification between operating and finance lease; resulting in a major change in accounting, principally around whether assets and liabilities have to be recorded on the balance sheet. Statutory overrides will ease the impact of these changes on the revenue account.

The Council's refuse vehicle fleet is deemed as being under a finance lease, resulting in a financial liability being included on the Council's balance sheet.

An initial review of the Council's contract and lease arrangements identified 4 contract arrangements for further review; however the completion of the information gathering process has resulted in the following arrangements coming within the changes under this area of accounting:

- the use by the Council of the Museum and its contents
- the lease of Thaxted Guildhall
- hire purchase arrangement in relation to printing equipment.

The first two arrangements have resulted in the Council taking the assets into the balance sheet as donated assets. The final arrangement has resulted in the equipment being included as a finance lease on the balance sheet.

Accounting for Accrued Annual Leave

The Council is now required to make a provision in the accounts for employees' leave entitlement unused at the end of the year. The necessary work has been undertaken and a robust audit trail provided in order to substantiate the provision. The value of the provision is £127,000 for 2010/11. In view of the low value of year-on-year changes in this provision; officers have agreed a quick method of calculation for future years with the auditors.

Revised Accounting Policies

Accounting policies for the Council under IFRS have been reviewed.

Accounting for Grants and Contributions

Most councils have struggled with the accounting requirements for these items. The requirements are complex depending on the nature of the income and the availability of the associated paperwork. In numerous cases the information triggers have been vague; and Officers have had to take a decision based on limited information.

This area has been a key element for the restatement of the financial statements for 2009/10. In view that the initial feedback has been positive from the audit team, Officers are of the opinion that the decisions taken are as robust as they can be going into the audit of the 2010/11 Accounts.

Accounts Disclosures

The various disclosure requirements are now drafted. As the financial information is included each disclosure is verified against national guidance to ensure the regulatory requirements are met.

Already implemented

Some key IFRS accounting and disclosure requirements were already implemented as part of the preparation of the 2009/10 Statutory Accounts:

- accounting and disclosure in relation to the pension fund
- accounting for the Council's PFI contract
- accounting and disclosure for Financial Instruments (mainly investments)
- agency accounting arrangements for the Collection Fund.

There are no outstanding audit actions in relation to these areas and the reporting requirements will only marginally change under 'The Code'. In addition, officers progressed the IFRS requirements for Cash and Cash Equivalents and Assets Held for Sale; within the 2009/10 Accounts.

13 Liaison with External Audit

Ongoing engagement with the auditors is essential to the effective and timely implementation of the IFRS arrangements and publication of the Statutory Accounts. Early discussion and agreement of accounting treatment should prevent last minute material changes to the financial statements.

14 Members Training

It is proposed to hold informal workshops with Members immediately prior to the Committee meetings on 18 August and 29 September. This will allow opportunities for Members to be briefed informally on the key aspects of the accounts, and for discussion of Members' queries. The Committee's views are invited as to whether more in-depth training should be organised.

15 The Accounts and Audit (England) Regulations 2011

The Accounts and Audit Regulations 2011 came into force on 31 March 2011 and consolidated the various amendments to the Accounts and Audit Regulations 2003. The key change is in relation to the signing and approval of the statement of accounts, with the following arrangements now applying:

- the responsible finance officer, in the Council's case - the Assistant Chief Executive - Finance is required no later than 30 June 2011 to sign and date the draft statement of accounts and certifying that they reflect a 'true and fair' view.
- The audited accounts are required to be approved by a committee of council members, signed off accordingly and published with an auditor's opinion by 30 September 2011.
- prior to the review and approval by the members, the responsible officer is required to re certify the statement of accounts.

With the above changes in mind the following arrangements have been made for members to consider the draft and final accounts:

- 18 August 2011 – Performance and Audit Committee considers the draft accounts, after certification by the Assistant Chief Executive - Finance.
- 29 September 2011 – Performance and Audit Committee considers the final Statement of Accounts, with the associated Auditors report and certification.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The draft Statutory Accounts do not materially comply with the requirements of 'The Code', resulting in an adverse audit report	2. Arrangements within the body of the report are being implemented to reduce the likelihood of this risk.	3. Delayed or qualified audit opinion.	Continuous liaison with the Council's External Auditors.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Appendix A

TIMETABLE – Key Deadlines	
Dates	Details
January to early March 2011.	Finalisation of Transitional Balance Sheets and preparation of draft Financial Statements. Now complete.
31 January to 9 February and 21 March to 21 April.	Pre Statement audit.
30 March to 8 April 2011.	IFRS transition audit.
February 2011 to June 2011.	Completion of Closure of Accounts timetable. Finalisation of Draft Statutory Accounts and associated working papers.
30 June 2011	Assistant Chief Executive - Finance to certify the Draft 2010/11 Accounts.
18 August 2011	Draft accounts received by Performance and Audit Committee.
July / August 2011	Statutory Accounts Audit
29 September 2011	Finalisation (including re-approval by Performance and Audit Committee) and publication of Statutory Accounts with audit opinion.