

**Subject:** Progress report on implementation of IFRS accounts

**Status:** For Publication

**Report to:** Audit and Accounts Committee

**Date:** 1<sup>st</sup> March 2011

**Report of:** Finance Manager

**Portfolio**

**Holder:** Finance and Resources

**Key Decision:** NO

Forward Plan  General Exception  Special Urgency  "X" In Relevant Box

**1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to update Members on the implementation of the International Financial Reporting Standards ahead of the final accounts process for 2010/11.
- 1.2 The Council has a statutory duty to submit the 2010/11 under the IFRS rules, as interpreted by the Code of Practice on local authority accounting in the United Kingdom 2010/11(the Code).

**2 CORPORATE PRIORITIES**

- 2.1 The matters discussed in this report are linked to and support each of the Council's priority areas however in particular they impact on following:
- *Providing value for money services* – rigorous preparation will ensure a smooth final accounts process, enabling officers to move on to monitoring the 2011/12 financial year as early as possible, especially those areas targeted for savings.

**3 RISK ASSESSMENT IMPLICATIONS**

- 3.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- *Level of General Fund Reserves:* Though the implementation of IFRS does not affect the cash position of the Council, the requirement to accrue for the value of annual leave not taken at the year-end has had an effect on the level of General Fund reserves. Early preparation has enabled this value to be calculated rather than estimated.

## 4. BACKGROUND AND OPTIONS

- 4.1 The implementation of IFRS requires the re-statement of the opening balances for 2009/10, activity within the 2009/10 year and the closing position at 31<sup>st</sup> March 2010. Therefore, all the original data quoted within this report can be drawn from the Statement of Accounts 2009/10, which is freely available on the Council's website.
- 4.2 Local authority staff across the country have been preparing for this implementation for the past two years, building to a crescendo of activity ahead of the closure of the 2010/11 accounts. This report follows up on the progress reports made to this Committee in December 2009 and November 2010.
- 4.3 The re-stated Core Statements were submitted to this Committee in November 2010, though the meeting was cancelled due to adverse weather. The November report is attached at Appendix 1 and the recommendations re-submitted at section 9 below. In light of the time pressures for this project, the full re-stating of the Statement of Accounts and submission to the Audit Commission for initial inspection has continued despite the cancellation of the November committee meeting.
- 4.4 Audit Commission feedback has been received and several adjustments have been made to the version submitted to the Auditor on the 17<sup>th</sup> January 2011.

Page	Note	Change
8		Added ref to Segmental Reporting at Note 40
16	MiR	Added '-'s to show zeros and blanked out 2010/11 data
17	CI&E	Corrected Note ref for Trading Undertakings & removed 2010/11 data
18	Bal Sht	Corrected Note ref for Assets for Sale (long term)
19	Cash Fl	Corrected top section to reflect Note 2 impacts on CI&E, as per A.C.
34	Note 4	Should read Note 5 – text correction only
35	Note 8	Amend 2009/10 figures to acknowledge Note 2 change – of £3,420 Government Grants deferred now removed £3,223 were originally credited to the Trading Undertakings
39	Note 12	Presentation of title & correct the 2009/10 data column, as per A.C.
40	Note 13	Presentation of title
42	Note 15	Presentation of title
50	Note 21	<i>Questions remain over restating the 2009/10 financial and operation leases note Not expanded the Minimum lease income section – to complete in May 2011</i>
56	Note 25	Credit risk – missed the value of bank deposits and needed to add a total to the first column, as per A.C.
58	Note 28	Update the 2009/10 data column correctly, as per A.C.
63	Note 35	Add 35a and 35b to the respective sub-headings – presentation only
66	Note 36	Remove text reference to former Statement of Total Recognised Gains and Losses and refer instead to Other Comprehensive Income and Expenditure
69	Note 38	Amend values to reflect Note 2 adjustments, as per A.C.
70	Note 40	Amend date in the top section of the table – text only, as per A.C.

- 4.5 The items highlighted in italics above are still being discussed with the auditors or investigated at the time of writing this report. A further update will be provided verbally at the Committee meeting.
- 4.6 These remaining issues focus around the treatment of leases (page 50)

- Leasing issues focus around the IFRS definitions of leases and the distinction between operational leases, for which assets and liabilities are not shown in the Council's balance sheet, and finance leases where the assets and the outstanding leasing payments are disclosed as assets and liabilities respectively in the balance sheet. At present officers do not believe that the Council has any finance leases.
  - Leasing issues also include instances where the Council acts as lessor and allows third parties to use its assets. Officers are still investigating some questions raised by the auditors.
- 4.7 To date the restated 'skeleton' accounts for 2010/11 (Appendix 2) have been received favourably by the Audit Commission staff. Subject to the discussions and investigations ongoing as noted above, the auditors are happy to move the Audit and Accounts Committee in June forward by about 2 weeks to allow earlier audit work and an earlier conclusion to the final account process at the Audit and Accounts Committee in early September. These suggested dates have been passed to colleagues in the Democratic Services section for the preparation of the 2011/12 committee schedule.

## **COMMENTS FROM STATUTORY OFFICERS:**

### **5. SECTION 151 OFFICER**

- 5.1 Changing to IFRS has not affected the cash position of the Council's 2009/10 accounts.
- 5.2 As previously stated the only significant net effect of all these changes is the transfer of £85k out of the General Fund Balance to Short Term Creditors for the value of employee leave carried forward at March 2010.
- 5.3 In light of the current financial climate and the costs of this change over the past two years, the comparative cost/benefit of transferring to IFRS has been strongly questioned with the Secretary of State for Communities and Local Government. No reply has been received at the point of writing this report.

### **6. MONITORING OFFICER**

- 6.1 The Accounts and Audit Regulations 2003 state that the Council is required to approve the draft 2010/11 Statement of Accounts, submitted under IFRS, by 30<sup>th</sup> June 2011. Revisions to these regulations are in progress to remove the requirement for a June draft approval by members, but it is safest at present to continue to plan for the current requirements. The work completed and planned, as documented in this report, will help to ensure that the current June deadline can be met.

### **7. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)**

- 7.1 There are no direct Human Resources implications

## 8. CONCLUSION

- 8.1 That the project to convert the Council's Statement of Accounts for 2009/10 is on track to support the efficient closure of the 2010/11 accounts under IFRS.

## 9. RECOMMENDATIONS (carried forward from November report)

- 9.1 That Members approve the adjustment of £85k from the General Fund Balance to create the Short Term Creditor for the value of employee leave entitlement carried forward.
- 9.2 That Members approve the accounting policy amendment for componentisation suggested at 4.5.1.5 above – the de-minimis value for 'larger' assets should be set at £250k and the significant component definition be set at 10%.
- 9.3 That the amended Core Statements as presented at Appendix 2, are approved to be used to re-draft the Statement of Accounts for the year-ended 31<sup>st</sup> March 2010.
- 9.4 That permission be given for the re-drafted Statement of Accounts for the year-ended 31<sup>st</sup> March 2010 to be presented to the Audit Commission for consultation prior to the next Audit and Accounts Committee in March 2011 and ahead of the accounts closure process for 2010/11.

### (Subsequent recommendations)

- 9.5 That the skeleton 2010/11 Statement of Accounts format at Appendix 2 be noted.

## 10. CONSULTATION CARRIED OUT

- 10.1 Head of Finance, Property Services Manager, officers in legal and the Audit Commission.
- 10.2 Consultation and information sharing has also been undertaken with colleagues in the authorities across Lancashire throughout the IFRS preparation process.

## 11. COMMUNITY IMPACT ASSESSMENT

Is a Community Impact Assessment required ~~Yes~~ / No  
Is a Community Impact Assessment attached ~~Yes~~ / No

## 12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required ~~Yes~~ / No  
Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

<b>Contact Officer</b>	
Name	Janice Crawford
Position	Finance Manager
Service / Team	Financial Services

Telephone	01706 252416
Email address	janicecrawford@rossendalebc.gov.uk
<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
Monthly detailed financial monitoring statements for each service area	Financial Services