

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director of Support Services
to

Audit Committee

on

30 March 2011

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Implementation of International Financial Reporting Standards

A Part 1 Public Agenda Item

1 Purpose of Report

To appraise Audit Committee Members of the preparation plans in place to deliver the implementation of International Financial Reporting Standards in time for the 2010/11 Statement of Accounts.

2 Recommendation

- 2.1 To note the progress of the implementation of IFRS; and
- 2.2 To note the likely changes to the reporting timetable arising from the Accounts and Audit Regulations 2011.

3 Background

- 3.1 In preparing its financial statements for the 2010/11 year (year ending 31 March 2011) the Council will be required to comply with the CIPFA "Code of Practice on Local Authority Accounting in the United Kingdom 2010". In contrast to previous codes, which were based on UK Generally Accepted Accounting Practice (UK GAAP), the 2010 code is based upon on International Financial Reporting Standards (IFRS).
- 3.2 This is a step change to the financial reporting requirements and requires more preparation than previous adjustments to accounting practice. This new set of applicable standards causes significant changes in the preparation of financial statements of the Council, including a greater level of disclosure on all financial transactions and relationships.
- 3.3 The new accounting standards must be implemented in time for the production of the 2010/11 Statement of Accounts. In that published statement, previous financial statements must be shown restated to an IFRS compliant basis. This includes Balance Sheets at 1 April 2009 and 1 April 2010 as well as the Income and Expenditure Account for 2009/10.

4 Progress with the Required Changes

4.1 Progress achieved to date includes:

Private Finance Initiative (PFI) and Service Concessions

4.2 The Council does not currently have any PFI arrangements in place and therefore is largely unaffected by this change. However this change also applies to so called Service Concessions, where a service has been outsourced to a private sector supplier, and as a result that supplier has brought into use “infrastructure” assets such as land and building to deliver its service on behalf of the Council. It has been concluded that no changes to the accounts are required.

Leasing (including all contractual arrangements regarding assets)

4.3 The new requirements for reporting leases are likely to result in some leases being recognised on the balance sheet. In addition, major contracts involving the use of assets must be examined to determine whether they contain arrangements that are, in substance if not in legal form, a lease to use assets. If so, these contracts must be accounted for in line with the leasing regulations. It has been concluded that one of our standard leases needs to be redefined as a finance lease. Following extensive research it has also been concluded that we have no “embedded” lease type arrangements.

Fixed Assets

4.4 The re-categorisation of our fixed assets has been completed into the new IFRS groupings. In addition the revaluations due for 2010/11 (principally the HRA housing stock) will be in accordance with the new componentisation requirement. This latter element is a forward facing change, with no requirement to “componentise” assets until they reach their normal revaluation date.

Investment Properties

4.5 Investment properties are those assets which are held by the Council for the purpose of either receiving a rental income or benefitting from capital appreciation. They are not used by the Authority for providing services in any way. The IFRS code sets out new methods for estimating the value of these assets to the Authority, and for recording changes in value. A full evaluation of our investment properties has been undertaken with the conclusion that none need to be re-categorised.

Employee Benefits

4.6 The Authority must now collate, and record as a liability in the accounts, data on unused annual leave and flexi-time entitlements. This has been done on a sample basis, and then extrapolated across the whole establishment.

Restatement of Accounts

- 4.7 At the time of writing the Balance Sheets for 2008/09 and 2009/10 have been restated into IFRS format, and the Income and Expenditure Account for 2009/10 converted into the new Comprehensive Income and Expenditure Account. These statements, together with supporting working papers have been passed to PKF for review. Still outstanding are the new Movement in Reserves Statement and the restated Cash Flow.
- 4.8 In addition the template for the 2010/11 Statement of Accounts, incorporating all the new disclosure requirements, is in preparation.

5 Accounts and Audit Regulations 2011

- 5.1 The Government has signalled its intention to make changes to the Accounts and Audit Regulations that amongst other things set out the requirements for the approval and audit of the Annual Accounts. Currently the Accounts need to be signed by the Head of Finance and Resources and approved by the Audit Committee by 30 June. The Accounts are then passed to Audit, prior to publication by 30 September. The proposed new Regulations will still see the Head of Finance and Resources sign the accounts by 30 June, but then the Accounts would be passed straight to Audit. Once the Audit has been completed the Annual Accounts will then come to Audit Committee for approval and then publication by 30 September. This change will bring Local Government practice in line with the rest of the public and private sector.
- 5.2 At the time of writing, the regulations have yet to be formally passed, but it is anticipated that this will happen by 31 March 2011.

6 Corporate Implications

- 6.1 Contribution to Council's Vision & Critical Priorities
None
- 6.2 Financial Implications
None – although will change the way in which the Council's Annual Accounts are presented
- 6.3 Legal Implications
The proposed Accounts and Audit Regulations 2011 will change the timing and order of the Adoption on the Annual Accounts
- 6.4 People Implications
None
- 6.5 Property Implications
None
- 6.6 Consultation
None

6.7 Equalities Impact Assessment
None

6.8 Risk Assessment
Non-compliance with the IFRS standards would lead to the qualification of our Annual Accounts and therefore would pose a reputational risk

6.9 Value for Money
None

6.10 Community Safety Implications
None

6.11 Environmental Impact
None