

# **Audit and Corporate Governance Committee Report**

Report of Head of Finance

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To: Audit and Corporate Governance Committee

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Listening Learning Leading

## **AGENDA ITEM 12**

## **International Financial Reporting Standards (IFRS): update on progress**

### **Purpose of Report**

1. This report updates the committee on progress towards complying with International Financial Reporting Standards (IFRS).

### **Strategic Objectives**

2. Sound financial management is central to the strategic objective of managing our business effectively. A full understanding of the transactions involved in the production of the council's annual financial statements and their transfer into a revised format supports the transparency of process whilst conforming to government requirements on accounting practice.

### **Background**

3. Audit and corporate governance committee receives a verbal or written update on progress towards IFRS compliance at every meeting. It was agreed at the December meeting of the committee that a written report on progress would be brought to this meeting.

### **Work undertaken since December**

4. To enable the council to produce IFRS compliant accounts the following tasks must be completed:

- Restatement of the opening balance sheet as at 1 April 2009 to comply with IFRS; and
  - Restatement of the 2009/10 financial statements to provide comparators for the 2010/11 accounts.
5. Since the December meeting progress on IFRS has been as outlined in the following paragraphs:

#### **Restated opening balance sheet as at 1 April 2009**

6. The restated opening balance sheet as at 1 April 2009, which was presented to the December meeting of the committee, has now been completed and passed to the external auditor for review. We are awaiting feedback from the auditor on this.

#### **Restatement of 2009/10 financial statements**

7. Restatement of the primary accounting statements for 2009/10 has been substantially completed and will be passed to external audit for review. They are discussed in detail further on in this report.

#### **Reviewing and restating notes to the accounts**

8. Work has commenced on reviewing the disclosures required in the notes to the accounts in IFRS. This has been undertaken on the accounts for Vale of White Horse District Council (VWHDC) initially and work there is substantially complete. Having worked on the VWHDC accounts officers are now beginning to look at the notes and disclosure requirements for this council's accounts. As part of this work there will need to be restatement of some of the figures contained within the notes to the accounts for 2009/10, and this will be discussed with the external auditor in due course.

#### **Reviewing the accounting policies**

9. A further piece of work relating to the restatement concerns the council's accounting policies, which are being reviewed in the context of IFRS. As with the notes to the accounts, this work has been done on VWHDC initially and this council's policies are now being reviewed, prior to discussion with the external auditor.

#### **Fixed assets accounting system**

10. A decision has now been reached on which fixed asset accounting system to procure. The chosen product is the Agresso fixed asset accounting module, which has the advantage of being already integrated into the Agresso general ledger.
11. Work has begun on implementing the system, with officers having attended training and a workshop on how the system will be set up. However, due to resourcing and other pressures on the accountancy team a decision will need to be made whether to attempt to complete the implementation of the system for the 2010/11 closedown, or defer the completion until after the completion of the accounts.

12. If the latter occurs, we will need to review and amend our asset accounting spreadsheets to enable us to use them for one more year. It is therefore clearly the preference of officers to get the system implemented but the resourcing requirements of both options will need to be considered before a decision is made. It is anticipated that the decision on whether to defer on implementing the module for 2010/11 closedown will be made by the end of March.

### **IFRS training for officers**

13. Officers from both the accountancy team here at SODC and at VWHDC continue to attend training on IFRS. Officers have attended formal training as follows:
- Jan 2011 – local government final accounts workshop 2010/11: meeting the challenge of IFRS (provided by Audit Commission); and
  - March 2011 – first time ever under IFRS: what needs to be done for the 2010/11 accounts closure (provided by CIPFA).
14. The officers that attended those training courses have fed back to other members of both accountancy teams in sessions organised at both councils.

### **Restatement of 2009/10 primary financial statements**

15. In order to provide comparators for the 2010/11 Statement of Accounts in IFRS format the remaining following primary statements also need to be restated and represented in the following IFRS format and order.

### **Movement in Reserves Statement (MiRS) – appendix A**

16. The Movement in Reserves Statement (MiRS) is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It does this by analysing:
- The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income;
  - The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets; and
  - Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.
17. In the IFRS primary statement the total of the council's reserves is split between:
- Usable reserves – general fund, earmarked reserves, capital receipts reserve and capital grants unapplied reserves, and
  - Unusable reserves – these are the adjustment accounts and any reserve accounts that cannot be used to fund the council's ongoing commitments.

Whilst the summary level report doesn't identify all the different funds and reserves, notes to the statement will be required to show the detail to readers.

## **Comprehensive income and expenditure statement (CIES) – appendix B**

18. The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by the council during the financial year. As a public body, the council does not have any equity in its balance sheet so the gains and losses reconcile to the overall movement in net worth. The total recognised gains and losses for the year is calculated to be £9.719 million deficit. This is reflected by the downward movement on the balance sheet of net value £103.985 million as at 1 April 2009 to £94.266 million as at 31 March 2010.
19. The CIES has two sections:
- Surplus or deficit on the provision of services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income; and
  - Other comprehensive income and expenditure – shows any changes in net worth which have not been reflected in the surplus or deficit on the provision of services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.
20. Appendix B summarises the key figures and shows the difference between the income and expenditure account previously reported, and the IFRS comprehensive income and expenditure statement.

## **Balance sheet – appendix C**

21. The December report to this committee covered the impact of IFRS on the balance sheet in detail. Appendix C to this report reflects further changes to the opening balance sheet identified by officers, and also now includes a restated balance sheet as at 31 March 2010. The further changes to the opening balance sheet are detailed below:
- £65,000 has been transferred from investment property to property, plant and equipment, following further review of the council's assets;
  - A further £345,000 has been transferred from short-term investments to cash and cash equivalents. This reflects the accrued interest on investments re-classified as cash and cash equivalents;
  - £33,000 of cash and cash equivalents shown in current liabilities has been moved and netted off the amount of cash and cash equivalents shown in current assets; and
  - The treatment of termination benefits has been clarified. In paragraphs 40-41 of the December report it was noted that an additional £209,000 liability had been accounted for, but that officers were confirming with colleagues at Oxfordshire County Council whether this treatment was correct. Officers now believe that in fact all of the liability in respect of termination benefits is already accounted for, and that this additional £209,000 liability is not required.

22. The restated balance sheet as at 31 March 2010 builds on the opening restated balance sheet, and will provide the comparator for the 2010/11 final accounts.

### **Cash flow statement – appendix D**

23. The cash flow statement summarises the flows of cash that have taken place into and out of the authority's bank accounts over the financial year. It separates the flows into:

- those that have occurred as a result of the authority's operations;
- those arising from the authority's investing activities; and
- those attributable to financing decision.

24. There are two methods of preparing the cash flow statement:

- The direct method – the statement is prepared using cash records as source documents. The council last used this method in the 2007/08 accounts; and
- The indirect method – the statement is prepared using the surplus or deficit on the provision of services and cash flows are derived by adjusting for non-cash items, removing the effects of accruals and extracting transactions relating to investing or financing activities. The council has used this method since the 2008/09 accounts.

The council is required to use the indirect method for a government return, namely Whole of Government Accounts, and will therefore use the indirect method in its statement of accounts.

25. As discussed in the December report, under IFRS the definition of cash and cash equivalents changes. Cash and cash equivalents on the balance sheet move from £9.822 million at 1 April 2009 to £23.259 million at 31 March 2010. This represents an increase of £13.437 million.

### **Other issues for 2010/11 closedown**

26. Consultation has taken place on changes to the rules regarding adopting a council's statement of accounts. The consultation period has now ended and, if the proposed changes are adopted, the revised regulations will apply to the forthcoming 2010/11 accounts closedown.
27. Under the current regulations, this committee approves the accounts for audit by June 30. Under the changes proposed, that approval by this committee will no longer be required. Instead, the responsible finance officer, in this council the strategic director and chief finance officer, will have to sign off a set of the accounts by 30 June. This is more in line with the practice in companies, and is already adopted by the Welsh councils. There is no change to the September deadlines/arrangements.
28. If this is adopted, it is proposed that the June meeting of this committee be rescheduled for early July, at which the committee will note the signed-off accounts and ask questions concerning them.

## **Financial Implications**

29. The financial implications are as set out in the body of the report.

## **Legal Implications**

30. None

## **Other Implications**

31. There are no human resources, sustainability, equality or diversity implications of this report.

## **Conclusion**

32. This report provides details of the council's progress towards compliance with IFRS.