

To: Audit & Governance Committee

Date: 28th March 2011

Item No:

Report of: Head of Finance

Title of Report: Final Accounts Closedown and transition to International Financial Reporting Standards (IFRS) - 2010/11

Summary and Recommendations

Purpose of report: To update the Audit and Governance Committee on the Council's progress on the transition of the Council's accounts to International Financial Reporting Standards (IFRS), and preparations for the closedown of the 2010/11 accounts

Report Approved by:

Finance: Nigel Kennedy

Legal: Jeremy Thomas

Policy Framework: Financial stability

Recommendation(s):

It is recommended that the Committee consider the report and make comments as appropriate

Appendices

Appendix A Copy of Closedown Guidance for Managers

Background

- 1 On the 30th January 2011 the Audit and Governance Committee received a report on progress made in delivering a restated set of accounts for 2009/10 based on International Financial Report Standards (IFRS).
- 2 The report concluded that whilst progress was not as advanced as would have been liked, officers were confident of completing a restated 2009/10 balance sheet by the self declared date of 21st February 2011, thereby enabling the Audit Commission to undertake the necessary checks before the 2011/12 'closedown' process commenced.

- 3 Members were advised by the Audit Commission that a recent audit survey of authorities on progress with implementation had placed the City Council on an amber status. This assumed that skeleton statements were delivered to them for auditing by 21st February 2011.
- 4 This report updates Members on progress in delivering the 2009/10 IFRS compliant restated accounts and provides Members with a timetable and guidance notes issued to managers in respect of the closedown of the 2010/11 accounts.

Progress towards Restatement for 2009-10

- 5 Progress on delivering the substantive changes required under IFRS is set out below:

- **Reconsidering the classification of investment assets** – IFRS requires Investment property to be held solely for capital appreciation or income generation. If there is any partial service reason for retaining the asset it must be considered operational and depreciation applied. The restated IFRS Balance Sheet requires the amendment to be made retrospectively for comparator purposes.

Where are we –

- All assets have been reviewed for classification, and approximately 160 were moved from Investment Properties to operational Property Plant and Equipment. All requisite calculations have been made. **The auditor has checked these areas and is happy that this work has been completed satisfactorily**
- **Identifying the property leases of the Council and establishing the category of the lease, into either finance or operational lease.** This restatement is required for 2008/09 and 2009/10.

Where are we -

- The Council currently has 350 properties leased out: 295 being operating leases and 55 being potential finance leases
- The Council leases in 35 properties, 34 being operating leases and 1 being a finance lease.
- **The auditor has checked these areas and is happy that this work has been completed satisfactorily**
- **Collecting data relating to employee benefits that have been earned but not taken, and therefore need to be accounted for as accruals.** IFRS requires costs to be recorded in the contractual year, and this means that if leave is carried forward the cost of

Where are we

- All data has been collected for 2008/09 and 2009/10 restated Balance Sheets and this has been input into these statements. Procedures are being embedded to ensure that this data is available for current and future years.
- **The auditor has checked these areas and is happy that this work has been completed satisfactorily**
- **Considering the requirements for component accounting -**
This is required where an asset comprises different elements and those elements have different lives. Where this is the case each element needs to be assessed separately for depreciation purposes. For example the Blackbird Leys Leisure Centre may have a number of elements, land which is not depreciated, the main building which may have a life of say 60 years, and the filtration and other equipment which might have a significantly shorter life. This requirement is required from 2010/11 onwards.

Where are we

- A policy has been written on how the Council proposes to deal with componentisation and this has been shared with the Audit Commission. The policy will apply to all assets to ensure that all material components are picked up, and ensure that depreciation levels are sufficient.
- **This policy will effect the audit of the accounts for 2010/11 and we are discussing the approach with the District Auditor**
- **Preparation of new final accounting statements including the restatement of previous statements into an IFRS format –** The current financial accounting statements need to be amended for formatting changes. The Balance Sheet presentation will be slightly different, a comprehensive Income and Expenditure Account needs to be produced together with segmental reporting and there are also changes to the movement on reserves and the cash flow.

Where are we

- A restated IFRS compliant Balance Sheet as at 1/4/2009 was handed to the Audit Commission together with associated working papers on 24th December 2010
- An IFRS compliant Balance Sheet as at 1/4/2010 was given to the auditor. **The auditor has checked these**

areas and is happy that this work has been completed satisfactorily

- **An IFRS Income and Expenditure Statement for 2009/10 has been given to the auditor who has confirmed that he is satisfied with the work.**
- **Restated cash flow statement – The auditor raised some issues with regards to this statement and has been sent an officer response**
- **Movement in Reserves Statement (MIRS). This statement was handed to the auditors on 8th March and is now subject to audit**
- Revised financial statements and skeleton statements will be completed by 31st March 2011- The authority is continuing to work towards this date to prepare a revised set of 2009/10 IFRS Statement of Accounts by 31st March 2011, to use a platform to launch the 2010/11 closedown.

Are we on track for IFRS compliance?

6 The bulk of the work to restate the 2009/10 IFRS has now been completed and is awaiting formal sign off by the District Auditor. The auditor has advised that he is satisfied with the work given to him to date and officers do not expect any major issues on the areas outstanding i.e the fixed assets notes and the MIRS. Once this is confirmed the authority will have successfully completed the work for the auditors and will continue to produce a fully compliant IFRS Statement of Accounts as at 1st April 2010 as a platform for the 2010/11 closedown.

2010/11 Closedown Timetable – Work to Date

7 In addition to the work on IFRS restatement officers have :

- Drawn up a timetable for the 2010/11 closedown process and distributed it to all Finance staff at a closedown kick off meeting held on **25th February 2011**
- Produced a guidance note which has been sent to all heads of service and officers outside of Finance who have involvement with the process. A copy of this guidance note is attached at **Appendix A**. Broadly the note provides:
 - Explanations of debtors, creditors and payments and receipts in advance. What they need to do and by when
 - Procedures for requesting the carry forward of unspent budgets
 - Key dates
 - Key Finance contacts

- Workshop dates for key staff to attend (22nd to 24th March) to obtain information and undertake training in closedown

8 Reporting Progress on Closedown

The Head of Finance and Financial Accounting Manager own the Closedown process and the timetable will be monitored by :

- Regular one to one communication with Senior Finance Managers to have early indication of problem areas
- Regular reporting to Finance Management Team Meetings
- Regular briefing to the Chief Executive and Corporate Director
- Briefing of Audit and Governance Committee meetings

9 Risks

In delivery of unqualified accounts, there are specific risks around key staff critical to the project. The accounts closure process is highly technical and in a small team it is difficult to obtain resilience due to the complexity of the work and the need to deliver other business needs. Some mitigation is possible with the involvement of other staff. However, the main mitigation is the involvement of IFRS consultants which come at a cost. Such resource has already had to be used in the restating the 2009/10 accounts.

Following the restructure of the Service, the Senior Financial Accountant has recently resigned from her position which poses a significant risk to the project. To mitigate this risk officers have taken the following action :

- Advertised the post - interviews will be held on 22nd – 23rd March
- Had discussions with consultancy firms to facilitate short term cover as required
- Retained existing consultancy resource to ensure that the IFRS restatement is completed

10 Financial Implications

These are set out within the body of the report

11 Legal Implications

The Council has a legal obligation to produce a draft Statement of Accounts for audit by the 30th June.

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Background papers: None

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