St Edmundsbury
BOROUGH COUNCIL

B572

Performance and Audit Scrutiny Committee
26 April 2011

International Financial Reporting Standards (IFRS) Preparations

1. Introduction

1.1. The 2007 HM Treasury Budget report announced that UK Public Sector organisations would in future be required to adopt International Financial Reporting Standards (IFRS) in the presentation of their annual accounts. The reasons for moving to IFRS base accounting were to ensure that public sector financial statements continue to follow best commercial practice, and to allow better international comparisons to be made. Central Government and the health service produced their first IFRS based financial statements for 2009/10. For local authorities, the first IFRS based financial statements are required to be produced for the 2010/11 financial year.

1.2. The production of IFRS compliant accounts, including the production of comparative financial statements for 2009/2010 on an IFRS basis, represents a significant amount of additional work, particularly for the Finance and Property Services teams. Preparatory work for the implementation of IFRS, which includes the implementation of specialist IFRS compliant capital accounting software, is progressing well.

1.3. The Finance team are working closely with the Council's external auditors, the Audit Commission, who are monitoring progress on our IFRS preparations and reviewing key stages in this project. Over the past two years the Audit Commission have undertaken a series of national surveys to review local authorities' progress on implementation of IFRS. The results of the most recent survey (January 2011) were published last month.

1.4. The purpose of this report is to provide Members with:

a. an overview of the main findings of the Audit Commission's latest national survey on local authorities' IFRS preparations,
b. an update on the Council's preparations for the implementation of IFRS
c. information on the changes in arrangements for the reporting of financial statements to Members, as set out in the Accounts and Audit Regulations 2011.

2. Audit Commission Survey on IFRS Preparations – January 2011

2.1. This is the Audit Commission's third national survey into IFRS preparations by local authorities, the previous ones having been undertaken in November 2009 and July 2010. A copy of the resulting report, The Final Countdown, published in March 2011, is attached at appendix 1 to this report.

2.2. As in previous surveys, auditors made an overall assessment of each local authority's ability to produce IFRS compliant accounts for 2010/11, using the following ratings:

a. Red – not "on track" or major issues to resolve
b. Amber – minor issues to resolve; or
c. Green – "on track" to produce IFRS compliant accounts.

2.3. The survey concluded that whilst 90% of authorities were assessed as either "green" or "amber" and making progress on their IFRS preparations, nearly 10% were assessed as "red" having major issues to resolve.

2.4. The survey found that there has been slippage in most authorities' IFRS implementation plans. The main reason for delays cited by Councils is the fact that CIPFA's IFRS guidance notes, due for publication in the Summer of 2010, were not published until the end of December 2011. The survey also found that 15% of authorities have significant capacity issues that had yet to be resolved. In the light of the spending review and local government settlement figures, together with issues raised by internal restructuring plans, many local authorities have struggled to devote sufficient resources to IFRS preparations.

2.5. As a result of this survey, the Audit Commission recommend that authorities should:

a. Complete any outstanding IFRS implementation tasks, such as restatement work, without further delay
b. Integrate any remaining tasks into their accounts closure timetable
c. Leave enough time to prepare for any increased IFRS disclosures and resolve any remaining financial reporting issues
d. Ensure their accounts closedown timetable is realistic, building in enough time and staff resources to deal with issues during the closedown period
e. Keep their auditors informed on their progress in resolving IFRS reporting issues
f. Continue to discuss progress on IFRS implementation with their audit committees, and
g. Take steps to ensure that IFRS knowledge and skills are captured and embedded to enable good financial reporting in future.

3. St Edmundsbury: Progress on IFRS Implementation

3.1. Within the context of this latest survey, the Audit Commission have indicated that, as at January 2011, the Council's IFRS preparations were assessed as "green" (on track) indicating that:

a. Our implementation timetable is clear and realistic
b. Staff have received IFRS training and technical support had been engaged on a timely basis
c. Regular discussions were taking place between auditors and officers ensuring that problems were being resolved quickly.

3.2. Previous years' financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP). There are a number of areas in which the accounting treatment differs significantly between UK GAAP and IFRS. The main areas of change applicable to this Council are as follows:

a. **Presentation of financial statements** - IFRS adoption will result in considerable changes to the presentation of the financial statements, with significant additional work required to reformat the statements and respond to increased disclosure requirements (including first time adoption disclosures).
b. **Accounting Policies** - will need to be reviewed in the light of IFRS requirements.
c. **Restatement of Opening Balances** – the opening balance sheet and 2009/10 comparative figures will need to be restated on an IFRS basis
d. **Accounting for fixed assets** – IFRS involves significant changes in the way the Council accounts for its fixed assets, including changes in the way in which assets are classified and valued within the accounts. IFRS also require that larger assets are broken down into their major components, each of which need to be accounted for as separate assets. The increased complexity of this area has necessitated the implementation of specialist Capital Accounting Software (Asset 4000).
e. **Accounting for leases** – changes have been made in the classification and accounting for leases, including a requirement to identify and separately account for leasing arrangements that may be embedded within major contracts (known as 'embedded leases').
f. **Employment benefits** – IFRS requires adjustments to be made to the accounts to reflect outstanding staff annual leave entitlements that are carried forward from one financial year to another.
g. **Grants and Contributions -** grants and contributions received by the Council are required to be reclassified, and separately accounted for, dependent upon the nature of any outstanding conditions attached to their award.
h. **Financial Instruments** – new definitions apply to the classification of cash and cash equivalent balances.
i. **Group accounts** – the Council's relationship with Abbeycroft Leisure needs to be re-evaluated on IFRS principles.
j. **Segmental reporting** - IFRS requires additional financial disclosures in respect of the key business segments of the organisation which have to be identified on the same basis that is used for internal reporting.

3.3. It should be noted that whilst the move to IFRS accounting will significantly affect the Council's financial statements, the Government have introduced statutory mitigations to ensure that changes in accounting treatment necessitated by IFRS will not impact upon the level of Council Tax (ie., the basis on which the Council's budgets are calculated will not be affected by changes in the financial statements).

3.4. Whilst the Council's IFRS preparations are progressing well, in common with most other Councils surveyed by the Audit Commission, the Council's original IFRS programme has suffered delays due to a combination of factors, including:

a. delays in the publication of CIPFA's IFRS guidance
b. programme slippage on the implementation of specialist capital accounting software (due to technical issues and software updates), and
c. pressures on limited accounting staff resources arising from budget setting and DRIVE efficiencies challenges and work in support of the shared services initiative with Forest Heath District Council.

3.5. It is therefore imperative that the Finance team prioritise IFRS and accounts closure work over the next 3 month period.

4. Accounts and Audit Regulations 2011: Approval of Accounts

4.1. The 2003 Accounts and Audit Regulations required that members approve the draft annual accounts prior to their submission to the Council's external auditors for review (required by 30 June each year). This is out of step with arrangements within the private sector, and within some other areas of the public sector, where directors or board members would be made aware of the findings of the audit before they would approve the accounts. The Accounts and Audit Regulations 2011 have therefore made the following changes to the accounts approval process:

a. no later than 30 June following the financial year end, the responsible financial officer must certify and present the Council's draft annual accounts to external audit for review
b. following audit, the annual accounts must be published with the audit opinion and certificate, and must be approved by members. The body must use its best endeavours to secure approval and publication by no later than 30 September
c. the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given.

4.2. In so far as this Committee is concerned, there is no longer a requirement for Members to scrutinise the draft financial statements at their meeting in June each year. However, the Committee will still be required to receive and scrutinise the audited statements of account prior to submission to Full Council for approval (normally by 30 September) and subsequent publication. The Government have indicated that these changes should prove useful to

Councils in this first year of IFRS adoption by giving them additional time (about 2 weeks) to prepare their accounts for audit.

4.3. In response to these changes in the Regulations, it is proposed that:

a. the Performance and Audit Scrutiny Committee will no longer review draft financial statements prior to their submission to external audit for review,
b. the Committee will receive a detailed budget outturn report (including financial highlights from the draft statement of accounts) at its first scheduled meeting after the 30 June audit deadline,
c. the audited statements of accounts will be submitted for Committee scrutiny prior to full Council approval and publication (normally by 30 September each year).

5. Recommendation

5.1. The Committee is asked to:

a. note the contents of the Audit Commission's latest national survey on IFRS preparations
b. note the Council's progress on the implementation of IFRS, and
c. approve proposals set out in 4.3 above regarding future arrangements for the scrutiny and approval of the Council's financial statements.

Contact Details	**Chairman**	**Deputy Chief Finance Officer**
Name	John Hale	Chris Barber
Telephone	01359 221141	01284 757241
E-mail	john.hale@stedsbc.gov.uk	chris.barbers@stedsbc.gov.uk