

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

27th September 2010

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Relevant Portfolio Holder	Councillor Geoff Denaro Cabinet Member for Finance
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Corporate Resources
Key Decision / Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To inform members of the progress made for the transition to International Financial Reporting Standards (IFRS).

2. RECOMMENDATIONS

- 2.1 **That the Council's preparations for the introduction of International Financial Reporting Standards are noted; and**
- 2.2 **That progress made to date for the introduction for compliance with the International Financial Reporting Standards, as detailed in Appendix 1, is noted.**

3. BACKGROUND

- 3.1 The Audit Board is an important part of Corporate Governance as a key source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on financial and non-financial performance. As part of this function the Audit Board should be aware of the requirements of IFRS to ensure that the transition project is given suitable corporate priority.

A failure to achieve successful transition to IFRS would cause significant reputational damage to the Council, and will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion.

- 3.2 As previously stated in the report to the Audit Board on 17th March 2010, the annual financial statements for this council and all other local authority entities are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice(UK GAAP).
- 3.3 In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, local government bodies are to move to preparing their financial statements

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using International Financial Reporting Standards(IFRS). These standards will be adapted as necessary to meet the requirements of the public sector.

- 3.4 The 2010/11 financial year will be the first year for IFRS based local authority accounts, but prior to that date preparation is required for transition to this new basis, this includes the restatement of the 2009/10 comparative figures.
- 3.5 Even though IFRS is to be effectively implemented in the 2010/11 financial year there will be a stepped transition to the production of the council's statement of accounts on a solely IFRS basis. There are three key stages in this transition:
- Restate the opening balance sheet as at 1 April 2009 to comply with IFRS.
 - Prepare the accounts for the 2009/10 financial year in accordance with UK GAAP and also restate these accounts to comply with IFRS for use as comparatives to the 2010/11 financial statements.
 - Prepare the 2010/11 financial statements on an IFRS basis only.

4. KEY ISSUES

- 4.1 The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, which is based on the IFRS accounting requirements, has been reviewed by the Finance Section and compliance with its requirements is being assessed to ensure compliance with best practice.
- 4.2 Staff received training as part of the initial implementation of the project, but this training has been ongoing as need has arisen during the course of the project.
- 4.3 Key staff that have input into the transition have been identified and inevitably centre around the Finance Section, but the Council's Valuation Service have been consulted on offering assistance with Property and Lease Valuations. Where required guidance/support has been sought from outside the Council, where possible this has been done through the Hereford and Worcester Finance Managers Group, but in addition KPMG are offering advice on IFRS through a joint purchasing arrangement with Redditch.
- 4.4 A skeleton set of accounts has been created which are being used in the restatement of the final accounts comparative figures for the financial year ended 31st March 2010 (2009/10) these will be used as the comparative figures for the 2010/11 IFRS compliant financial statements. This skeleton

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set of accounts will then be used for the Audit of the 2009/10 comparatives and will then become the 2010/11 accounts template.

- 4.5 Key areas have been identified by CIPFA as areas that will result in changes to the figures in the financial statements. These areas are being worked through and the following work is being carried out for each area:-
1. Restate the 1/4/2009 opening balances on the balance sheet
 2. Restate the relevant areas of the 31/3/10 financial statements on the skeleton set of accounts
 3. Update the relevant accounting policies in the skeleton set of accounts
 4. Change current procedures and working files for the 2010/11 accounts/ balance sheet monitoring.
 5. Train staff (both operational and finance) on new accounting treatment for the 2010/11 accounts under IFRS to ensure smooth 2010/11 year end.
 6. Assess the impact on budgets and report to finance and budget holders.
- 4.6 An assessment has been carried out by the Finance Section (in accordance with Cipfa requirements), of those areas which will be impacted by the implementation of the IFRS accounting requirements. The progress on each individual area has been included at Appendix 1.

The target dates to ensure compliance with the national timetable is as follows:

- All numerical adjustments and related accounting policies and notes completed by 30th September 2010.
- Presentation of the financial statements (including segmentation and group accounting where applicable) and disclosures in the remaining accounting policies and notes to be completed by 30th November 2010.
- Review of the skeleton set of accounts and resulting adjustments to be completed by 31st December 2010.
- Audit of the 2009/10 comparatives and disclosures has been booked for January 2011.

Work is progressing in accordance with these targets.

- 4.7 As stated above we are working through the Code, prioritising areas highlighted by CIPFA to achieve the following:-
- Restatement of the 1/4/2009 opening balances on the balance sheet

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- Restatement the of the 31/3/10 financial statements
- Amend the relevant accounting policies for the 2010/11 accounts
- Change current procedures and working files for the 2010/11 accounts/ balance sheet monitoring.
- Train staff (both operational and finance) on new accounting treatment for the 2010/11 accounts under IFRS to ensure smooth 2010/11 year end.
- Assess and communicate the impact on budgets and report to finance and budget holders.

4.8 We are engaging with our external auditors, the Audit Commission. We have had meetings with them discussing our progress. We have booked the audit of the comparatives and have requested a disclosure checklist which they have agreed to provide when it is ready. Working papers for the audit of comparatives are being created as the areas are being completed. Working paper requirements have been requested from the Audit Commission.

4.9 Officers have attended a number of seminars and are of members of Countywide working groups to assess the impact of the introduction of IFRS. It is envisaged that further seminars will be attended over the coming months as further clarification of its application is given.

5. FINANCIAL IMPLICATIONS

5.1 None other than those covered in this report.

6. LEGAL IMPLICATIONS

6.1 The Accounts and Audit Regulations 2003 require that the Council complies with statutory accounting legislation and changes.

7. POLICY IMPLICATIONS

7.1 The changes that will be made in relation to IFRS will be adopted in the financial policies of the Council.

8. COUNCIL OBJECTIVES

8.1 Compliance with the accounting standards supports the improvement objective across the Council.

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9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

- 9.1 The Financial Services risk register includes the preparation of the accounts and the controls in place to ensure the accounts are treated in compliance with accounting standards.

10. CUSTOMER IMPLICATIONS

- 10.1 None as a direct result of this report.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

- 11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

- 12.1 None as a direct result of this report.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

- 13.1 None as a direct result of this report.

14. HUMAN RESOURCES IMPLICATIONS

- 14.1 None as a direct result of this report

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

- 15.1 The statement of accounts and the controls in place to ensure the accounts are accurate is key to the effective governance arrangements in place within the Council.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

- 16.1 None as a direct result of this report.

17. HEALTH INEQUALITIES IMPLICATIONS

- 17.1 None as a direct result of this report.

18. LESSONS LEARNT

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18.1 Officers continue to seek advice from best practice authorities and the Audit Commission recommendations to ensure the accounts are presented in compliant format for consideration.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report .

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	Yes
Chief Executive	N/A
Executive Director (S151 Officer)	N/A
Executive Director – Leisure, Cultural, Environmental and Community Services	N/A
Executive Director – Planning & Regeneration, Regulatory and Housing Services	N/A
Director of Policy, Performance and Partnerships	N/A
Head of Service	N/A
Head of Resources	N/A
Head of Legal, Equalities & Democratic Services	N/A
Corporate Procurement Team	N/A

21. WARDS AFFECTED

All wards

22. APPENDICES

Appendix 1 – IFRS Update, progress to date

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23. BACKGROUND PAPERS

Detailed working papers for final accounts & IFRS accounting

24. KEY

IFRS – International Finance Reporting Standards

AUTHOR OF REPORT

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