

# Accounts, Audit and Risk Committee

## Accountancy Progress Report – Closedown and IFRS

22 March 2010

### Report of Head of Finance

#### PURPOSE OF REPORT

To provide the Committee with a progress report on the work of the Financial Information Team in relation to the production of the 2009/10 Statement of Accounts and to advise the Committee on how officers are progressing in the adoption of IFRS.

This report is public

#### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of this report and the officers' proposed actions to deal with the closure of the 2009/10 Accounts and production of the Statement of Accounts.
- (2) Note the contents of this report and the officers' proposed actions to deal with the implementation of IFRS.
- (3) Approve the accounting policies for inclusion in the Statement of Accounts 2009/10.

#### Executive Summary

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1. **Closure of the 2009/10 Accounts and production of the Statement of Accounts**
  - 1.1 The Accounts and Audit Regulations 2003 are made under powers conferred under section 27 of the Audit Commission Act 1998. The Accounts and Audit Regulations 2003 contain the dates by when the Council must approve its Statement of Accounts and by when they must be published.
  - 1.2 The statutory deadline for approval of the financial statement has remained at 30 June 2010. This Committee will be asked to approve the 2009/10 Statement of Accounts at its meeting on 23 June 2010. The audited

accounts will be reported on 22 September 2010 prior to the statutory publication date of 30 September 2010.

- 1.3 Cherwell improved its score on the Statement of Accounts from 2 to 3 in our recent Use of Resources assessment for Key Line of Enquiry 1.1 (KLOE1) and with the measures we are putting in place to improve closedown procedures we are aiming for an improved score of 4 in our next Use of Resources assessment.

These measures include

- producing our Annual Report to accompany the draft Statement of Accounts by 30 June 2010.
- improved management of the S106 Commuted Sums monies held by the Council.
- quarterly monitoring of fixed asset capital transactions done in year.
- move towards more automated working papers for the year-end.

- 1.4 Work on the 2009/10 closedown has already commenced. A comprehensive closedown timetable with detailed tasks, deadlines and resources assigned has been prepared by the Technical Accountant and Year-end Project Group and will be used to monitor progress during the closedown period. The latest position against this detailed timetable will be verbally reported at the Accounts, Audit & Risk Committee on 22 March.

The closedown timetable is designed to meet the target dates set-out in 1.5, and the target dates for submitting annual Government returns such as the Whole of Government Accounts.

The target completion date for the draft Statement of Accounts is 21st May 2010 which will ensure a longer period of final review and reconciliation to working papers than in the previous year. This is 5 days earlier in comparison to 2008/09 and 13 days earlier than 2007/08. These accounts will then be subject to initial scrutiny by this committee on 16 June 2010. We have already secured dates in late May with our internal auditors PWC to commence a high-level review.

- 1.5 The key stages of the process are:

No.	Deadline	Objectives and key tasks
1	22 March 2010	<b>Planning stage</b> <ul style="list-style-type: none"> <li>➤ Action to deal with “lessons learned” and to deal with 2008/09 external audit reports</li> <li>➤ Obtain “buy-in” to timetable from Members and Officers</li> <li>➤ Confirm proposed action with external auditors in respect of SORP and any technical issues relating to economic downturn</li> </ul>
2	Early March to May 21 2010	<b>Completeness and accuracy of the financial information system</b>

		<ul style="list-style-type: none"> <li>➤ Financial information system contains all the transactions, which are necessary to enable the accounts to be produced</li> </ul>
3	21 May to 23 June 2010	<p><b>Statement of Accounts prepared</b></p> <ul style="list-style-type: none"> <li>➤ Statement of Accounts is prepared and checked for numerical accuracy and adherence to SORP</li> <li>➤ 151 Officer signs off the Statement of Accounts on the 15th June, which are submitted for scrutiny and adoption to the Accounts, Audit and Risk Committee on 16 &amp; 23 June 2010 respectively</li> </ul>
4	30 September 2010	<p><b>The accounts are audited</b></p> <ul style="list-style-type: none"> <li>➤ Accounts are audited from July to September 2010.</li> <li>➤ Auditors give their opinion on the Statement of Accounts and advise of any material changes required.</li> <li>➤ Accounts are published.</li> <li>➤ Accounts, Audit and Risk Committee (22 September) consider and approve any amendments to the accounts.</li> </ul>

- 1.6 In order to ensure that all departments of the Council are aware of their Closedown responsibilities we have held 5 workshops on various dates throughout March 2010 communicating the roles of the Closedown Team, timetable and deliverables required. There were specific drop-in workshops for creditor payments, accruals, capital, fixed assets, basic accounting and general year-end issues. A specific area of the intranet has been dedicated to the Closedown and a Financial Year-End Procedure 2009/10 has been sent to all Budget Holders/Responsible Officers. This procedure is attached in Annex 1.

From 8 April 2010 there will be a weekly review of closedown progress and any exceptions to timescales will be escalated appropriately. It is also planned to send a weekly bulletin to all staff involved in the closedown process to advise of progress so far, issues arising and key tasks for the coming week.

A regular update on Closedown preparation and progress will be given to Corporate Management Team during the period of April 2010 to June 2010.

- 1.7 The SoRP 2009 only contains mostly minor cosmetic changes on the presentation of Cherwell's 2009/10 Statement of Accounts.

The main changes are listed below:

- There has been some incidental updating of nearly all notes to reflect the change from 'presents fairly' to 'true and fair'
- The removal of the requirement to have notes to the accounts for the Building Control Account, Publicity, Section 137 Expenditure, and Local Authorities Goods & Services Act 1970
- Changes to the agency accounting for Council Tax and NNDR

1.8 To ensure SoRP compliance in 2009/10, officers from the Financial Information Team have analysed the changes required and updated the “draft” statements to ensure compliance and have attended:

- CIPFA Technical Update Day in November 2009
- Audit Commission Final Accounts Workshop in January 2010
- PWC Technical Update Meeting in February 2010

1.9 This will be the fourth year that the accounts have been closed using the Agresso financial information system. The development of the reporting system to automatically produce the Income and Expenditure Statement and Balance sheet with full audit trail will continue to ensure accuracy and is a more efficient use of resources

1.10 Following the completion of the 2008/09 accounts a review meeting was held on 21 January with the Audit Commission where issues arising from the audit were discussed, as well as planning for the 2009/10 closedown. The main issues raised were:

- Glitnir Bank, Iceland – capitalisation issues and return of the investment
- Car cash buyout – how we are planning on doing this and the implication on the year-end accounts
- IFRS Balance sheet – the work done so far
- TUPE – any implications arising from the transfer to Capita of our Revenues and Benefits service
- Bicester Town Centre – longer term issues around asset transfers and accounting treatment.
- KLOE 1 – discussion relating to our aspirations to move from a strong 3 to a 4 drawing on audit commission experience.
- Audit 09/10 – systems audit, analytical review deminimis level, audit plan, public inspection dates

The actions required to address these issues have been built into the timetable.

Early and regular communication with the Auditors will allow all closedown implications to be considered ahead of the year end which will ensure we have no impact on our timetable. The next meeting is planned on March 16 2010.

## **2.0 IFRS Preparation**

2.1 Local authorities will move to accounting on an IFRS basis by 2010/11, a year after central government and the NHS.

International Financial Reporting Standards (IFRS) represents a significant change in financial reporting across government and the public sector and will

soon be the way in which government reports its financial results.

The move to IFRS in government is part of a process of aligning public sector financial reporting with what is seen to be the highest standards of financial reporting. To date, over 100 countries have adopted the rules or say that they intend to adopt them. The International Accounting Standards Board (IASB) expects that this figure will increase to 150 countries by 2011. IFRS have already been adopted by both the Australian and New Zealand public sectors.

- 2.2 Local Authority accounts are currently prepared in compliance with both UK Generally Accepted Accounting Principles (UK GAAP) and the Statements of Recommended Practice (SoRP). The Accounting Standard Board (ASB) is committed to the convergence of UK GAAP with IFRS.

The accounting impact of implementing IFRS will be made less onerous than it would have been due to the SoRP having gradually moved towards IFRS compliance in recent years in order to harmonise with UK GAAP.

- 2.3 Cherwell will move to accounting on an IFRS basis in 2010-11, with restated comparative figures for the previous year and a restated opening balance sheet. The move to IFRS is a challenge that will affect many areas of the organisation and will impact on budgeting, investment decisions, performance targets as well as financial reporting. A methodical approach to the IFRS conversion process is important in achieving success. The recommended best practice is to set up a project management process to enable good management of the transition period. One of the lessons learned from the private sector experience was that IFRS affects all parts of the organisation. It is not just a finance issue.

- 2.4 For these reasons, a project group and a steering group have been set up to develop and monitor an IFRS action plan with member participation. The steering group has agreed terms of reference and will meet quarterly to review progress against the action plan and agree resources. The project group have had several meetings since October 2009 and include representation from the Head of Finance, Technical Accountant, Asset Management, Human Resources, Legal, ICT, Internal Audit and Procurement. The Technical Accountant has been nominated as the Project Manager.

- 2.5 The council has sent a number of key officers on courses to gain a fuller understanding of IFRS to ensure that all accounting issues are fully considered. The Audit Commission plans to hold a training event in the near future for members of the Accounts, Audit And Risk Committee, as well as senior officers. An internal presentation on IFRS has also been held for EMT. Further to this, an Oxfordshire IFRS group has been set-up and have so far had one meeting at which the Technical Accountant from Cherwell attended.

- 2.6 The main areas affected by the introduction of IFRS are:

- Operating Segments

- Leases of land and buildings
- Valuation of fixed assets
- Private Finance Initiative
- Financial instruments
- Employee benefits – Untaken holiday accruals
- Impairment of assets
- More disclosures – It is expected that the financial statements will increase by 60% in size

2.7 Officers have carried out an initial review on the IFRS implications and there are a number of changes relating to disclosure and valuations. However the following key areas are the main items which will have the following significant impacts on the Council's Statement of Accounts.

Technical accounting changes / revaluations in the following areas:

- Employee Benefits accrual
- Leases
- Investment property
- Intangible assets – software costs
- Financial instruments (includes debtors / creditors / cash / leases / derivatives & contracts i.e. where inflation indexes / RPI etc used)

There will also be additional disclosure requirements for significant power / share holding (as related party transactions in the group accounts) as well as revaluations in the following areas:

- Investment properties
- Leases – land / buildings identified separately for leases
- Land being leased is now reclassified as operational leases
- New disclosure requirements (IFRIC 14)
- Finance leases – now depends solely on ownership at end of lease (no longer total paid versus asset value)
- All assets - now to be shown at fair value basis (not existing use value)
- Impairment values need to be fully disclosed
- Software - some will need to be reclassified as intangible assets
- Contracts – if payments based on derivatives (inflation indexes/RPI etc)
- Financial instruments – value now to be based on market value with notes explaining how increased or decreased risk will affect results and how we would mitigate various risks.
- Employee Benefits: Under IAS19 the Council will need to, from 2010/11, accrue for the value of staff annual leave not taken at the year-end. The likely impact is an additional liability charged to the general fund. Cherwell already has in place systems to capture the number of days of untaken leave at the end of the year.

2.8 A significant amount of work has been done in the last six months

addressing the issues raised above. The employee benefit accrual has been performed as at 31 March 2009 for the IFRS balance sheet restatement and the approximate value of this accrual stands at £198k. We are now awaiting further guidance from CIPFA on the accounting treatment of this. All leases in the Council have been entered onto a spreadsheet which has analysed whether they should be finance or operating leases. The good news for Cherwell is that the work undertaken has proved that we are dealing with all leases correctly under the new IFRS rules. Work is currently ongoing as to the classification of assets and this should be complete by the end of March. All other issues will be dealt with when the detailed guidance is issued from CIPFA. They are currently planning this for Nov/Dec this year.

### **3. Accounting Policies 2009/10 for inclusion in the Statement of Accounts**

#### **3.1 Background**

The format, content and presentation of the annual Statement of Accounts is primarily laid down in the Accounts and Audit Regulations 2003 (Statutory Instrument 2003 No. 533) and the Statement of Recommended Practice (SoRP) 2009 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Behind these requirements are a large number of accounting standards which dictate the manner in which we account for and present certain transactions.

In line with the above requirements, the Statement of Accounts must be approved by 30 June. The role of the Accounts, Audit and Risk Committee in this process is to review the accounts to ensure that appropriate care and consideration have been given to meeting the requirements of the Regulations, the SoRP and accounting policies and that variations in our practices are known and approved. This report is presented so that consideration can be given to any variations from the regulatory and statutory requirements that are proposed prior to the drafting of the accounts.

#### **3.2 Changes of the Regulatory Environment**

Since last year 4 minor changes have been made in the SoRP regarding accounting policies.

- Accruals of interest payable and receivable
- clarification of when available for sale financial assets become impaired
- PFI
- Change in the accruals basis for Council Tax and Collection Fund which will require a prior-period adjustment to 2008/09.

The first three have no implications for Cherwell, but the last one will have a minor change. It will not change how we apply our accruals, or how we do our prior-year adjustments, it simply means a change to accounting entries for the surplus or deficit arising.

Therefore, the only change to note in our Statement of Accounting Policies 2009/10 that is attached to this report as Appendix 2 is the last paragraph in section 3.2 Accruals of Income and Expenditure.

## Background Information

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None

## Implications

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- Financial:** There are no additional financial effects of the year-end closedown as all work will be completed using staff already employed within the finance team or from within existing budgets.  
Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
- Legal:** The Council must ensure its financial statements are prepared in accordance with SoRP guidelines and available for audit by June 30<sup>th</sup> 2010.
- Risk Management:** Failure to meet the statutory deadline or to follow the guidance laid down in the SoRP may lead to adverse comment in the External Audit Report and have a negative effect on the Financial Reporting Use of Resources assessment  
Comments checked by Phil O'Dell, Chief Financial Officer 01295 227098.

## Wards Affected

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All wards are affected.

## Document Information

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Appendix No	Title
Appendix 1	Financial Year-end Procedure
Appendix 2	Accounting Policies 2009/10
Background Papers	
None	
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