

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
17 JANUARY 2011**Draft International Financial Reporting Standards (Ifrs) Compliant Balance Sheets as at 1st April 2009 and 31st March 2010**

| OPEN | |
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| SUSTAINABLE COMMUNITY STRATEGY THEME: | Stronger Communities |
| CORPORATE PLAN AIM: | A Well Run and Responsive Council |
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| APPENDICES: | Appendix 1 – IFRS Implementation Timetable and Impact Assessment Appendix 2 – Draft IFRS Balance Sheet as at 1 st April 2009 Appendix 3 – Draft IFRS Balance Sheet as at 31 st March 2010 |

1. PURPOSE OF REPORT

- 1.1 To note the progress made on the draft International Financial Reporting Standards (IFRS) compliant Balance Sheets as at 1st April 2009 and 31st March 2010.

2. RECOMMENDATIONS

The Audit Committee is asked to NOTE THE PROGRESS IN RESPECT OF:-

- 2.1 **The draft IFRS compliant Balance Sheets as at 1st April 2009 and 31st March 2010.**

3. BACKGROUND

- 3.1 Compliance with the statutory IFRS reporting requirements represents a significant change in the compilation and presentation of the Council's annual Statement of Accounts and all related financial information and records.. The Council is required to report on an IFRS basis from 2010/11, with restated comparator figures for the prior year and restated opening balance sheets as at 1st April 2009 and 31st March 2010. All restatements will be subject to audit scrutiny.
- 3.2 A project plan is in place, involving officers from a range of disciplines, to ensure that the objective of the transition to IFRS financial reporting is successfully achieved. A copy of this together with the Impact Assessment is shown at Appendix 1. Regular update reports to the Audit Committee on progress are integral to effective governance and accountability.

- 3.3 The first key milestone in our transition to IFRS is to restate the balance sheets as at 1st April 2009 and 31st March 2010. The Council's external auditors commenced their review of the changes in late December 2010 and it is therefore timely for the Audit Committee to consider the first drafts of the restated Balance Sheets, together with a verbal progress report on feedback from the external audit review work
- 3.4 Retrospective application means that upon first time adoption of IFRS the accounts must be restated as though the Council had always accounted using the standard. This means that officers must trace records back as far as practically possible for balance sheet items to ensure that opening balances are correctly accounted for.
- 3.5 The Audit Commission has stressed the need for Local Authorities to ensure that their Audit Committee is aware of the implications of IFRS. The main issues with regards to IFRS were brought to the Audit Committee's attention in a report at the September 2009 meeting. A further update was provided in June 2010.
- 3.6 As previously reported, the vast majority of the additional work required for this significant change is being undertaken by the accountancy team; a minimal amount of specialist consultancy from Grant Thornton has supported this process, together with a few weeks agency resource from an experienced IFRS accountant.

4. PROGRESS

- 4.1 The balance sheets as at 1st April 2009 and 31st March 2010 have now been provisionally restated on an IFRS basis. The formal date for restatement of the 2008/09 and 2009/10 balance sheets is June 2011 although the project plan indicates a date of 31st March 2011 for completion of all transitional work.
- 4.2 Further work is currently required to fully implement the requirements of IFRS in preparation for the 2010/11 Statement of Accounts.
- 4.3 Although all of the standards have been reviewed and assessed, there are still some areas where further guidance is being sought with the Council's external auditor.
- 4.4 The other main area of uncertainty is around component accounting (the need to account for individual parts of an asset e.g. external structure, mechanical structure etc. rather than simply account for a building). The internal valuer is aware of the updated requirements and has reviewed the guidance from CIPFA and The Royal Institute of Chartered Surveyors (RICS). In addition, materiality levels are currently being agreed with the Audit Commission.

5. KEY ISSUES

- 5.1 In reviewing changes required to the Council's transitional balance sheets, the following areas of the accounts have been highlighted:
- Employee benefits
 - Fixed assets
 - Leases

• Other Accounting Changes

5.2 Employee Benefits

- 5.2.1 IFRS requires the Council to assess the holiday entitlement owed to employees as at 31st March each year (as if they hypothetically were to leave at that date). The amount calculated to be accrued at 1st April 2009 is £60,752 and at 31st March 2010 £88,432.
- 5.2.2 A review of Time Off In Lieu (TOIL) balances was also carried out. These calculations led to accruals of £20,412 at 1st April 2009 and £83,201 at 31st March 2010.
- 5.2.3 None of these accruals affect the Council's overall financial position, as we are able to remove their impact under statute. This means that there is no impact on the Council taxpayer.

5.3 Fixed Assets

- 5.3.1 IFRS redefines surplus assets and assets held for sale with the criteria for including an asset as held for sale now being much tighter. To satisfy the new requirements under IFRS, we have fully reviewed and reclassified our surplus assets for the restated balance sheets.
- 5.3.2 As well as reviewing surplus assets, we have carried out a review of all of our asset types to ensure that they are correctly classified.
- 5.3.3 The most significant change relating to fixed assets is the requirement to account for components of assets such as the roof of a building, its heating system etc. under IFRS. This is the biggest change to the way we work now. However, this requirement is not retrospective so does not affect our opening balance sheet adjustments.

5.4 Leases

- 5.4.1 The IFRS Code requires a review of lease arrangements against revised criteria to properly classify each arrangement as either an operating or a finance lease. Legal Services provided a listing of all leases where the Council acts as Lessor and where the Council is Lessee for review.
- 5.4.2 We have also considered any potential lease-type arrangements in place, even where there is not a formal legal agreement. There are many sources of information for potential lease arrangements or lease 'type' arrangements. In order to capture as many as possible we reviewed current hire and rental payments to understand any others to be considered for IFRS accounting treatment.

5.5 Other Accounting Changes

- 5.5.1 The guidance on deferring government grants has changed under IFRS. We will no longer have a government grants deferred account. Capital Grants are no longer released in line with the life of the asset it is funding. Grants are now released straight to the Income and Expenditure Account once the conditions of that grant

have been met. For restatement purposes it was necessary to consider whether the terms of the grants held on balance sheet have been met and apply the correct accounting treatment.

- 5.5.2 The format of primary statements, including the balance sheet has changed under the IFRS Code.

The main balance sheet changes are:

- Fixed Assets Categories are slimmed down and more is disclosed within the notes to the accounts.
- Available for sale assets are now stated within Current Assets instead of Fixed Assets.
- Cash & Bank under Current Assets are now headed up as 'Cash and Cash Equivalents'
- No Government Grants Deferred Account under IFRS but there will be a Grants Unapplied Account although this has different accounting rules.
- New Reserves on the balance sheet include Employee Benefit Adjustment Account and the Grants Unapplied Reserve.

- 5.5.3 The draft restated balance sheets as at 1st April 2009 and 31st March 2010 are shown at Appendices 2 & 3 to this report.

5.6 Next Steps

- 5.6.1 All of the IFRS adjustments outlined above are brought together in the restated balance sheets as at 1st April 2009 and 31st March 2010. They are currently being audited by the Audit Commission. The next key milestone in the transition to IFRS is the production of 2009/10 'shadow accounts' which will include production of all the key financial statements such as the Comprehensive Income and Expenditure Account Statement and the Movement in Reserves Statement. This activity will review the 2009/10 audited accounts and make adjustments to them in order to comply with the IFRS Code.

- 5.6.2 It is anticipated to present the audited balance sheets as at 1st April 2009 and 31st March 2010, along with the 2009/10 shadow accounts to the Audit Committee in March 2011.

6. FINANCIAL IMPLICATIONS

- 6.1 This is a financial report identifying transitional changes required by IFRS to the Balance Sheets as at 1st April 2009 and 31st March 2010.
- 6.2 Failure to achieve a successful transition to IFRS could risk the Council's audit opinion on the 2010/11 accounts, the first year of implementation.
- 6.3 The Audit Commission is closely reviewing progress for Local Authorities in implementing IFRS.

7. LEGAL AND POLICY IMPLICATIONS

- 7.1 It is a requirement of the Accounts and Audit Regulations 2003 (as amended) that the Statement of Accounts 2010/11, along with all transitional arrangements are prepared and approved by 30th June 2011.

8. RISK MANAGEMENT

- 8.1 The 2010/11 accounts, along with all transitional arrangements, must be prepared by 30th June 2011. If they are not approved this would mean the Council has not complied with Accounts and Audit Regulations.
- 8.2 The Impact Assessment contained in Appendix 1 is used to manage and mitigate risk for this significant change in financial reporting requirements.

9. EQUALITY IMPACT ASSESSMENT

- 9.1 This is a financial report and there is no requirement to undertake an Equality Impact Assessment.

10. CONCLUSION

- 10.1 Compliance with the IFRS Reporting requirements is a statutory requirement for the 2010/11 Accounts and this work continues to progress well.
- 10.2 In accordance with the IFRS implementation timetable, it is now timely that the Audit Committee consider the progress on the draft restated Balance Sheets and receive a verbal report on the Audit Commission review work recently undertaken.

11. CONSULTEES

- 11.1 CMT
11.2 Audit Commission
11.3 Grant Thornton
11.4 Chairman of Audit Committee and Portfolio Holder for Finance
11.5 Property Officer

12. BACKGROUND PAPERS

- 12.1 Accounts and Audit Regulations 2003 and 2006 and 2009 Amendments.
12.2 Audit Committee Report 28th September 2009
12.3 Audit Committee Report 14th June 2010