



NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	IFRS and Proposed Changes to the Accounts and Audit Regulations 2003
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	21 March 2011
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr David Perkins

1. Purpose

1.1 To explain to Audit Committee some of the changes arising from:

- International Financial Reporting Standards (IFRS)
- Proposed amendments to the Accounts and Audit Regulations 2003

1.2 To explain that the Statement of Accounts will no longer be approved by Audit Committee prior to the Accounts being presented to External Audit for auditing; the Council must now endeavour to get approval of Committee by 30th September.

2. Recommendations

2.1 Audit Committee notes the contents of this report.

2.2 Audit Committee specifically notes that the Statement of Accounts will no longer be brought to Committee prior to 30th June ands the commencement of the year end audit.

3. Issues and Choices

3.1 Report Background

3.1.1 The Government has been moving the public sector towards the implementation of IFRS since 2008 with a timetable that saw central

Government and the NHS moving to IFRS last financial year and local Government this year.

3.1.2 The presentation of the Statements is considerably different under IFRS and there are significant changes in accounting treatment in some aspects, while others remain virtually the same as before.

3.1.3 In addition, the Government has recently closed a consultation on amendments to the Accounts and Audit Regulations 2003 which include mainly governance and reporting changes, but also clarify a number of technical points. The new regulations are to take effect before the end of March 2011 so will apply to the Statement of Accounts for 2010/11.

3.2 Issues

3.2.1 The Core Statements will change from the previous ones as follows.

Previously Under SORP	In Future Under IFRS
Income and Expenditure Account	Movement in Reserves Statement (MIRS)
Statement of Movement on General Fund Balance	Comprehensive Income and Expenditure Statement
Reconciling Items for the Statement of Movement on General Fund Balance	Balance Sheet
Statement of Total Recognised Gains and Losses (STRGL)	Cash Flow Statement
Balance Sheet	
Cash Flow Statement	

3.2.2 The format of each statement has also changed in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, and the 2009/10 Statement of Accounts has had to be restated in accordance with the new regulations.

3.2.3 The restated 2009/10 Accounts are being audited from week commencing 14 March 2011 by the Audit Commission.

3.2.4 There are a number of areas where key changes have taken place as a result of the move to the new Code and IFRS.

3.2.5 **Leasing** – There has been a change in the criteria for how leases (both where the Council is a lessee and a lessor) are assessed as either operating leases (revenue) or finance leases (capital). Also, that on property leases the land and buildings must be split and separately assessed. Together these changes have altered the status on a small proportion of the Council's leases along with the related accounting treatment.

3.2.6 **Investment Property** – Rules on investment property have changed so that the emphasis is more on investment than property. As such there has been a change in the valuation requirements of investment property so that these are no longer charged to the revaluation reserve, but instead pass through the

Comprehensive Income and Expenditure Statement to the Capital Adjustment Account.

- 3.2.7 **Assets Held for Sale** – Assets meeting specific criteria are now held as non current assets held for sale, which are recoded separately on the balance sheet from other fixed assets. The criteria include being immediately available for sale in its present condition, sale being highly probable with completion expected within 12 months of the year end, the asset being actively marketed at a reasonable sale price.
- 3.2.8 **Other Fixed Assets** (Now called Property, Plant and Equipment) – Previously impairment due to consumption of economic benefits could not be charged to the revaluation reserve to net against revaluation gain balances. Under IFRS netting off against any existing credit balances in the revaluation reserve is the required treatment for impairment before looking to charge these to the Income and expenditure account.
- 3.2.9 The second area in relation to property, plant and equipment is component accounting. From 1 April 2010 the authority is required to account for the significant components of these assets so that depreciation reflects the component life rather than the overall asset life. The Council has adopted an accounting policy in relation to component accounting that aims to minimise the impacts of this change in requirements.
- 3.2.10 **Employee benefits accrual** – The Code requires Councils to account for the amount of outstanding annual leave, flexi time and Time of in Lieu (TOIL) outstanding at 31 March each year. Finance has been working with Human Resources to collect this information. The financial value of the untaken leave has to be accrued back into the year it was built up in, creating an Accumulated Absences Account.
- 3.2.11 **Government Grants** – Accounting in this area has become more complex under IFRS, with authorities now needing to have regard to conditions attached to grants. Where grants have no conditions attached, these are passed through the income and expenditure account on receipt, whereas grants with conditions outstanding that have not been met are received into the balance sheet and passed through the income and expenditure account as soon as the conditions have been met. This means that there will be no more amortised grants to match off against depreciation.
- 3.2.12 **Group accounts** – New regulations apply in relation to group accounts. For most entities the criteria now include having the power to control it (either financially or voting power) rather than actually controlling it. There are specific rules relating to special purpose entities which also look at risk and rewards, autopilot (if the agreement is set up in such a way that the special purpose entity is too restricted in how it can operate), etc.
- 3.2.13 In addition to the changes under IFRS the Government is planning to update the Accounts and Audit Regulations 2003, with the amendments taking effect from the 31 March 2011, so these will be applicable to the 2010/11 Statement of Accounts.

- 3.2.14 In addition to various minor alterations, the main change proposed in the Accounts and Audit Regulations is in the approval process. Going forward the Chief Finance Officer and not members will be required to sign off the accounts as for audit. The Chief Finance Officer will sign by 30 June each year that the draft accounts present a true and fair view. The Chief Finance Officer will re-sign it following the audit and prior to it being brought before the whole body or appropriate committee for approval.
- 3.2.15 The authority must also make best endeavours to have a committee or the body meeting as a whole to consider and approve the Statement of Accounts, the chair of the approving committee sign and date the Statement of Accounts, and publish the accounts together with 'any certificate, opinion, or report issued, given or made by the auditor under section 9 of the 1998 Act' (including on the Council's website) by 30 September each year.
- 3.2.16 This change relates in part to the additional requirements under IFRS and gives Council Finance Teams more time to prepare the additional detail and disclosures required. At the same time it allows members to sign off the final audited version of the accounts rather than an interim document that may require changes.
- 3.2.17 Under the consultation, the Statement of Accounts is accompanied by the Statement of Internal Control at each stage of the approval process, but is not a part of the Statement of Accounts itself.
- 3.2.18 Regulation 22 of the current Accounts and Audit Regulations declares contravention of all or part of 13 of the regulations to be a criminal offence. This has been removed in the proposed new regulations.

3.3 Choices (Options)

- 3.3.1 Members are invited to note the report.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 Changes to accounting policies will be made in order to comply with International Financial Reporting Standards and the IFRS Code.

4.2 Resources and Risk

- 4.2.1 Some of the changes under IFRS will impact on the Council's charges and balances, in particular those relating to leasing.
- 4.2.2 The changes will also impact on whether certain expenditure can be treated as capital. For example where the Council is a lessor on a property that must be designated as a Finance lease under IFRS, subsequent expenditure will be revenue as the asset is not within the assets on the Council's balance sheet. Similarly the principal element of the leasing income would be a capital receipt (subject to the Council's de minimis levels).

- 4.2.3 Until we have fully been through the transition to IFRS, it is difficult to see exactly where and to what degree these changes will impact with certainty, although the restatement indicates a small negative impact on general fund balances mainly relating to leasing and property plant and equipment.
- 4.2.4 IFRS implementation involves a higher volume of disclosures and additional supporting detail in back up than the SORP required. This means that the Finance Team is going to be more challenged to meet these requirements and timescales going forward.
- 4.2.5 There is a risk that no matter how much we have done and do to get the IFRS conversion correct our external auditors may have counter interpretations which will cause the audit process to be less efficient and with potential for requests for higher fees or adverse audit opinion. Finance is doing what it can to minimise this risk.

4.3 Legal

- 4.3.1 Regulation 22 of the current Accounts and Audit Regulations declares contravention of all or part of 13 of the regulations to be a criminal offence. This has been removed in the proposed new regulations.

4.4 Equality

- 4.4.1 None

4.5 Consultees (Internal and External)

- 4.5.1 The Council has worked with accountants from other local authorities in Northamptonshire and Bedfordshire through CAN (Chief Accountants Network) to discuss issues and approaches to treatment of various areas under IFRS.

4.6 Other Implications

- 4.6.1 None.

5. Background Papers

- 5.1 Code of Practice for Local Authority Accounting in the UK 2010/11
- 5.2 Code of Practice for Local Authority Accounting in the UK 2010/11 Guidance
- 5.3 Service Accounting Code of Practice 2010/11
- 5.4 LAAP 80 (March 2009) – Implementation of IFRS – Draft Project Plan
- 5.5 LAAP 86 (June 2010) – Component Accounting
- 5.6 Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended: Consultation, January 2011

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