

Update on Accounts Changes for 2008/09

AUDIT COMMITTEE

Date: April 2009

Author: Director of Finance

Wards Affected: None

Purpose

1. To inform the Audit Committee of updates to the Statement of Recommended Practice (SORP) in preparation of receiving the annual Statement of Accounts at its June meeting.
2. To highlight significant changes proposed in future years.

Recommendation

The Audit Committee is asked to:

- Note the updated requirements to the Annual Statement of Accounts that will be presented at the June meeting.

1. Reasons

- 1.1 This report informs Members of the context in which the Statement of Accounts must be produced, its overarching objectives and the required contents. It is intended that Members will be better prepared to scrutinise the accounts at the June meeting with the knowledge of how financial reporting requirements have changed since the 2007/08 accounts.

2. Timetable

- 2.1 The 2008/09 Statement of Accounts must be approved by the Audit Committee (the designated Committee of the Council for such purpose) by the 30th June 2009. The accounts will be presented to the Audit Committee meeting on 23rd June and the annual closedown timetable of actions needed in compiling the statements is being followed to achieve this.

3. Context

- 3.1 The key requirements for the statement of accounts are set out in a document published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA). The SORP is the checklist of minimum requirements that the accounts must contain.
- 3.2 The SORP is annually updated by CIPFA after a consultation period to ensure that local government accounting practice remains in line with changes to wider accounting standards. Changes implemented to the 2008/09 SORP are fewer than previous year's updates, but reflect the progression toward greater changes incoming years.

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- 3.3 The overriding requirement of the SORP is that the accounts 'present fairly' the financial position of the authority. In doing this, the SORP sets out the proper accounting practices for the statement of accounts. It is against the requirements of the SORP that the external auditors will base their audit opinion and material non-compliance will result in the accounts being 'qualified' i.e. the auditors' opinion is such that reliance cannot be placed on the accuracy of the financial statements.
- 3.4 The SORP is prepared on the basis that the intention of the statement of accounts is to give electors, taxpayers, members, employees and other interested parties clear information about the authority's finances. It should answer such questions as:
- What did the authority's services cost in the year of account?
 - Where did the money come from?
 - What were the authority's assets and liabilities at the year-end?
- 3.5 For comparative purposes between authorities, the SORP also requires a consistent pattern of presentation and compliance with the CIPFA Best Value Accounting Code of Practice (BVACOP) service analysis.
- 3.6 In producing the accounts, it is also important that interpretation and explanation is clear and prominent. The SORP requires an explanatory foreword that should highlight and explain the more significant features of the accounts. The supporting narrative to the accounts should also be in plain language, with technical terms explained in a glossary.

4. Changes to the SORP for 2008/09

- 4.1 There are a number of minor changes to the 2008 SORP, which mainly provide clarifications to previous changes, but the main area of change relates to asset disposal revaluations.
- 4.2 In previous years assets have been re-valued at market value upon disposal, effectively restating an asset value to the latest valuation at point of disposal. The alternative has been to not revalue but show a profit or loss on disposal. Either method has been allowed under earlier SORPs but from 2008/09 revaluations on disposal will not be permitted.
- 4.3 A process of restating the Authority's 2007/08 comparative figures to remove such so-called "deathbed valuations" has been ongoing and these changes will be incorporated into the draft statements for 2008/09.

5. Proposed changes to the SORP in 2009/10

Further information on the subject of this report can be obtained from *Darren Stevens* on *Direct Dial No.01793 463323* or Email dstevens@swindon.gov.uk.

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- 5.1 In addition to the changes in the 2008/09 SORP, CIPFA have consulted on the possible changes to the 2009/10 SORP. Final changes will be released in the summer of 2009 and more detailed information brought to committee before the 2009/10 accounts.
- 5.2 It is however expected that significant changes to PFI (Private Finance Initiative) accounting will be introduced in preparation of International Financial Reporting Standards (see below). In the wider sense this will mean a review of the Authority's PFI schools during 2009/10 to assess whether they should come onto the balance sheet as Council assets.
- 5.3 Based on our current understanding of the proposed changes, it seems unlikely that the PFI schools will remain off balance sheet, but detailed review will need to be undertaken once the final 2009/10 SORP is released to confirm this.

6. International Financial reporting Standards (IFRS)

- 6.1 From 2010/11 local government will follow other government sectors in the introduction of international financial standards. Part of the delay in implementation for local government has been the need to review the PFI accounting process whilst producing an IFRS SORP that accounts for local government taxation accounting.
- 6.2 Introduction of IFRS will have wide implications for the production of the 2010/11 financial statements. Whilst it is difficult to know the full impact at this early stage, CIPFA are committed to releasing draft chapters of the IFRS SORP as they are completed.
- 6.3 These releases are focussing at first on the areas that are seen as requiring more consideration. This will involve the main areas of asset valuations accounting issues, lease appraisal and whether currently defined operating leases (off balance sheet) should be reclassified as finance leases (on balance sheet asset) and accounting for employee benefits.
- 6.4 Some of these changes to the accounting standards do have the possibility of impacting on council tax if legislation is not implemented to negate their effect. It is considered highly unlikely that government will not introduce such legislation, which would have the same effect as that on capital charges. This would allow items to be reversed out in the statement of movement on general fund balances, much like depreciation and other capital charges.
- 6.5 Financial year 2009/10 is therefore going to be a key year for the review and implementation of accounting standards changes. Not only do 09/10 SORP changes need review, but also the introduction of IFRS SORP requires a restatement of 09/10 SORP figures, with an opening balance sheet produced as at 1/4/09.

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6.6 Early work on IFRS SORP is being undertaken and information being collected where possible at this point in time, such as untaken leave for employee benefits changes, to help in later adjustments. More work will be required after the 2008/09 accounts have been closed once more detailed information starts to become available. The Audit Committee will be presented with updates during the next year as more details emerge.

Alternative Options

- None. The Council is required to follow the SORP in producing its annual Statement of Accounts.

Risk Management

Financial and Procurement Implications

- The ability to produce the Council's accounts within statutory timescales to the standards expected impacts on the Use of Resources judgement.

Legal / Human Rights Implications

- There are no Legal/Human Rights issues.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

- There are none.

Consultees

- None

Background Papers and Appendices

- None