

Audit Committee Updates on Financial Accounts Processes

AUDIT COMMITTEE

Date: 24th November 2009

Author: Director of Finance

Wards Affected: All

Purpose

- To update the Committee on changes to the financial accounting standards and their impact.

Recommendations

The Audit Committee is asked to:

- Note the content of this report
- Support the Finance Function in developing new methods of accounts closure procedures to improve the closedown process
- Note the draft timetable for closing 2009/10 and general timetable for international standards transition

1. Reasons

- 1.1 This report informs Members of the wide-ranging changes that financial standards are undergoing and their impact on the Council's financial statements and processes.

2. 2009/10 Changes

- 3.1 The current financial year is the final period under which final accounts will be prepared under the UK GAAP (Generally Accepted Accounting Standards). Changes that have already been implemented have all been directing the accounts process to International Standards. 2009/10 sees the final changes to be introduced before full adoption of IFRS (International Financial Reporting Standards)
- 3.2 There are two key streams of change for the current financial year. The most significant is the review and restating of PFI schemes. CIPFA (Chartered Institute of Public Finance And Accountancy) have brought this in as a 2009/10 change, even though it is technically an IFRS review.
- 3.3 The change requires that PFI schemes are looked at and assessed against the below principles:
 - The local authority controls or regulates what services the operator must provide with the property, to whom it must provide them and at what price.
 - The local authority controls – through ownership, beneficial entitlement or otherwise – the significant residual interest in the property at the end of the term of the arrangement.

Further information on the subject of this report can be obtained from *Darren Stevens* on *Direct Dial No.3323* or Email dstevens@swindon.gov.uk.

Audit Committee Updates on Financial Accounts Processes

AUDIT COMMITTEE

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- 3.4 As Swindon Borough Council currently has a PFI scheme, for seven schools, our current assessment is that the authority controls significantly the services provided for the schools and the assets will revert to our ownership at the end of the term. This results in these assets needing to come on to the Authority's balance sheet. In doing so the accounting treatment will need to remove all previous entries against PFI accounting and replace it with the new entries that will need to be calculated.
- 3.5 The second major change relates to the Collection Fund. It will now only be required for the Authority to account for its share of balances of the Collection Fund. This information is available under normal closing arrangements and is just a process change on the detail that gets entered onto the ledger.
- 3.6 Closing of the 2009/10 financial year follows a detailed timetable that is usually published post-budget setting, in March. As there are additional impacts on closing 09/10, mainly SCS decoupling, the draft timetable has been produced early to enable longer consideration of where this will impact on the process. This is attached for reference at Appendix 1 and is subject to change after wider consultation.

4. 2010/11 Changes

- 4.1 The first year of IFRS adoption will be 2010/11. This will require the restatement of all main statements from 2009/10 accounts and the closing 2008/09 balance sheet. This closing balance sheet becomes what is known as the 'transition' balance sheet and is the earliest date of information under IFRS.
- 4.2 The attached implementation plan shows the general dates for data gathering, analysis and restatement of accounts. Whilst some information is being collected currently, it will not be until Apr-2010 that any process/system changes can be implemented, as 2009/10 still needs the current set-up in place.
- 4.3 There are several areas that are 'key' as part of the implementation and these are summarised as follows:
 - Untaken Leave – as part of more detail employee benefits accounting arrangements we need to account for the value of employee's untaken leave at the balance sheet date. Inclusion in the accounts will be considered against materiality. It is expected to have statutory mitigation in place to ensure this does not impact on general fund, with new regulations or guidance in place by 31st March 2010.
 - Position - Reports from HR are being analysed and staff input requested to enable this calculation as at 1/4/09 to be undertaken.

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- Leases – a change in interpretation of leasing may result in some changes in lease classifications. As the authority has no financial leases in place (where the asset is shown on the balance sheet rather than transactions simply being through revenue) the starting position is from holding operating leases. It is expected that any movement from operating to finance leases will be revenue neutral. Where the Council leases to others these are also currently classified as operating leases. There may be a revenue impact of any reclassification as no advice on mitigating statute has been published, but again, regulatory change or guidance is expected by 31st March 2010.
 - Position – Standard lessee lease schedule being extended to consider reclassification items. Lessor schedule being compiled with Property / Legal for separate assessment.
- Fixed assets – there are several valuation areas that require attention and Property Services' valuers are involved in the discussions.
 - Position – meeting held with property and process discussed. Valuations for 2009/10 UK GAAP and updated valuations for IFRS restatements expected by end of March 2010. New asset register system to be in place by end of this financial year, which will assist in the more complex accounting requirements under IFRS for fixed assets.

4.4 The transition balance sheet is planned to be with the external auditors by July 31st 2010, though smaller elements of the transitions will be discussed as they are considered and analysed. Completion of the transition balance sheet is hoped by this financial year end but consideration of higher volumes of valuations, on top of the required 2009/10 UK GAAP valuations, is being treated within a wider timeframe and impact of closing the current year.

4.5 The restated 2009/10 accounts will begin updating after approval of the UK GAAP accounts by Audit Committee in June 2010 and with the auditors by December 31st. This allows for six months of detailed review with audit of the overall look and feel of the new accounts. Building upon the good working relationships built up over the last statutory accounts audit, any concerns of audit will be dealt with as items are raised and discussed.

Alternative Options

- Not applicable – Accounts must be reviewed, restated and ready for IFRS for 2010/11.

Risk Management

Financial and Procurement Implications

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- These are included in the main body of the report.

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

- Appendix 1 – Draft closing timetable 2009/10
- Appendix 2 - Project Plan