TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 January 2010

Report of the Director of Finance

Delegated

1 INTERNATIONAL FINANCIAL REPORTING STANDARDS

This report provides an update on progress in preparing for the requirement to prepare the Statement of Accounts in accordance with International Financial Reporting Standards from 1 April 2010.

1.1 Introduction

1.1.1 Members may recall the report to the October meeting of this Committee informing of the requirement to prepare the Statement of Accounts in accordance with International Financial Reporting Standards (IFRS) from 1 April 2010. This paper provides an update to that report.

1.1.2 The transition to IFRS is one of the most important changes to local government financial reporting for a number of years and may require changes to systems, procedures and working practices. Some of the areas identified at this stage that might be of interest to Members are detailed below.

Property, Plant and Equipment

1.1.3 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is to be identified and depreciated separately. For example, depending on the definition to be applied to significant, a component that accounts for more than 10% of the asset value or has a value of more than £100,000, whichever is higher, may need to be separately identified.

1.1.4 Our current thinking is that only the Council's six major property assets; Gibson Building, Tonbridge Castle, Poult Wood Golf Course, Larkfield Leisure Centre, Tonbridge Pool and the Angel Centre would be subject to these requirements. Furthermore, we propose to consider only those items with a value equal to or in excess of £100,000 to be considered. At this stage Property Services will need to be involved to identify valuations in the component asset being replaced.

Leases

1.1.5 Authorities will need to assess whether arrangements contain a lease or the substance of a lease. Where this is the case, authorities will be required to account for this in accordance with the lease provisions. Having carried out this assessment it is felt that no significant issues have arisen, requiring anything other than an expansion to the current notes to the accounts. This being said further consideration is being given in conjunction with Property and Legal Services in respect of some of the Council's car parks.

Investment Property

1.1.6 Under the new IFRS code clarification has been issued on what types of asset can be held under this category. It now only includes assets that are used solely to earn rentals or for capital appreciation or both. This has resulted in some reclassification of assets held under this heading within the 2009/10 accounts. In order to aid the process the Asset Management Plan approved by members in 2008 showed the assets originally held under this asset category (see link below). Those classified with a purpose of investment are being retained in this asset category. http://www4.tmbc.gov.uk/akstonbridge/images/att6674.pdf

1.1.7 The other issue under this heading requires the assets held in this category under IFRS to be revalued annually whereas property assets are currently revalued on a rolling programme such that the intervals between valuations do not exceed 5 years. Following discussions with Property Services they are suggesting that they would only carry out a revaluation in the event that a material change (one being in excess of £10,000) in value was to occur or within 5 years whichever is sooner. In either case the confirmation or updation of the property value will come from Property Services based upon current valuation guidance.

Intangible Assets

1.1.8 Change in the recognition criteria for internally generated intangible assets is expected to result in the recognition of more internally generated intangible assets. Not considered relevant to Tonbridge and Malling.

Impairment

1.1.9 All impairment losses on revalued assets are to be recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset. Accounting arrangements will need to be amended.

Non-Current Assets Held for Sale

1.1.10 Assets held for sale are now to be classified as current assets where the asset is actively being marketed for sale or the sale is imminent within the following accounting period rather than always being classified as fixed assets, for example, Cemetery Lodge.

Employee Benefits

1.1.11 The IFRS-based Code covers all benefits payable during employment and requires the cost to be accounted for in the period to which the benefit is earned by the employee. The main impact is likely to be in relation to holiday pay. Authorities will need to accrue for benefits such as holiday pay where these are material.

1.1.12 An exercise was undertaken as part of the 2008/09 closedown process to assess the extent of untaken annual leave entitlement at the year-end and its associated monetary value. A random sample was selected for this exercise and the resulting associated monetary value based on this sample was in excess of £100,000. It is highly likely that from 2010/11 a figure in excess of £100,000 would need to be reflected in the accounts. A further exercise is planned to be undertaken as part of the 2009/10 closedown process.

1.1.13 Other benefits to be accounted for in the period to which the benefit is earned by the employee include flexi-time and long service awards. However, the associated monetary value of these is deemed to be immaterial.

1.1.14 Termination payments are accounted for in the period relevant to the date of the termination notice and under IFRS this is to be widened to include the date the termination is approved by Members.

Group Accounts

1.1.15 The definitions of associates and joint ventures are different and may cover a wider range of bodies. However, we continue to be of the view that the Council is not party to any arrangement that would require us to prepare group accounts.

Impact on Council Tax

1.1.16 There have been concerns that the move to IFRS could potentially impact on council tax, for example, the requirement to account for untaken annual leave entitlement at the year-end referred to above. The Department for Communities and Local Government in conjunction with CIPFA have issued supplementary guidance and is expected to issue the necessary statutory instruments to ensure any potential impact on council tax, is minimised, if not avoided.

Audit Commission

1.1.17 It is both our intention and in our interest to discuss issues with our external auditors as we move through the transition period to ensure they agree with our interpretation of the requirements and proposed approach, for example, what we deem to be significant in relation to the total cost of an item, indeed, preliminary discussions have been held with our auditors on the issued raised above and further information will be provided to them in the next few weeks.

Related Party Transactions

1.1.18 On a separate note, our Audit Manager has suggested that we might want to consider updating the form we have used for a number of years now to gather information in respect of Related Party Transactions from both Members and Chief Officers. Our Audit Manager has kindly agreed to forward a copy of a form used by a National Health Service Trust that he audits for us to consider and adapt for our own purposes.

Kent Authorities IFRS Sub-Group

1.1.19 A sub-group of the Kent Chief Accountants Group has been established to discuss issues surrounding the introduction of IFRS in order to share knowledge and aid consistency of approach.

Action Plan and Draft Statements

1.1.20 A detailed action plan, has been prepared using the draft code issued to local authorities this together with example of the new core Financial Statements have been attached at **[Annex 1]** and **[Annex 2a-c]** respectively. I will of course keep Members informed on progress and of further developments.

1.2 Legal Implications

1.2.1 The Code of Practice on Local Authority Accounting in the United Kingdom sets out the proper accounting practices required by section 21 (2) of the Local Government Act 2003. These proper practices apply to Statement of Accounts prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2003.

1.3 Financial and Value for Money Considerations

1.3.1 As set out above.

1.4 Risk Assessment

1.4.1 The Statement of Accounts is a statutory document and, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescale could adversely affect the Council's Use of Resources assessment.

1.5 Recommendations

1.5.1 Members are **RECOMMENDED** to note and endorse the contents of the report.

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