

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

12 October 2010

Report of the Director of Finance

Part 1- Public

Delegated

1 INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Council is required to prepare the Statement of Accounts in accordance with International Financial Reporting Standards (IFRS) from 1 April 2010. This report sets out the changes to the format of the financial statements and also asks the Committee to endorse and approve the Accounting Policies to be adopted in the preparation of the Accounts under IFRS.

1.1 Background

- 1.1.1 In the Budget statement of 2007 the then Chancellor of the Exchequer announced that public sector bodies would be required to prepare their Statement of Accounts in accordance with International Financial Reporting Standards (IFRS). This requirement to apply to local authority accounts from 1 April 2010.
- 1.1.2 Members of this Committee received a report on progress being made in preparing for the move to IFRS in January 2010. This further report provides details of the format of the financial statements and the proposed accounting policies under IFRS.
- 1.1.3 The report in January provided some details on the format of the accounts and issues identified at that time in the draft IFRS-based Code. The final version of the Code has now been issued, but we await the accompanying guidance notes which we understand are to be published in the near future. For the time being the financial statements have been prepared using the Code only and may be subject to change following publication of the guidance notes.
- 1.1.4 The move to IFRS require the 2009/10 financial statements to be restated and an opening balance sheet as at 1 April 2009 to be prepared on an IFRS basis.
- 1.1.5 The Audit Commission have indicated that they plan to review these restated financial statements in November 2010.

1.2 Financial Statements

- 1.2.1 The 2009/10 Statement of Accounts comprised several core financial statements, these are being replaced and or amalgamated into four new core financial statements as shown below:

SORP Code 2009/10		IFRS Code 2010/11	
Income and Expenditure Account	→	Comprehensive Income and Expenditure Account	
Statement of Recognised Gains and Losses	→		
Statement of Movement on the General Fund Balance	→	Movement in Reserves Statement	
Balance Sheet	→	Balance Sheet	
Cash Flow Statement	→	Cash Flow Statement	

- 1.2.2 Attached at **[Annexes 1, 2, 3 and 4]** are financial statements in both the old and new formats for comparative purposes showing how you get from one to the other. As can be seen they are very similar in format what differs is the accounting changes required under IFRS.
- 1.2.3 These accounting changes include, for example, changes to government grants used for capital purposes, the inclusion of lease arrangements through contractors, known as embedded leases and the inclusion of unpaid annual leave for staff at the end of the financial year.

1.3 Accounting Policies

- 1.3.1 As part of the move to IFRS the Accounting Policies need to be reviewed and updated as appropriate. The draft Accounting Policies to be adopted following this review are attached at **[Annex 5]**.
- 1.3.2 Under The Council's constitution this Committee is charged with considering whether appropriate accounting policies have been followed in the preparation of the Accounts.

1.4 Legal Implications

- 1.4.1 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.

1.5 Financial and Value for Money Considerations

- 1.5.1 As set out above.

1.6 Risk Assessment

1.6.1 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 lead to qualification of the Accounts by the District Auditor.

1.7 Recommendations

1.7.1 It is **RECOMMENDED** that:

- 1) Members note the contents of **[Annexes 1, 2, 3 and 4]**; and
- 2) Members endorse and approve the draft accounting policies as set out at **[Annex 5]**.

Background papers:

contact: Paul Worden

Working papers held by Accountancy Section
2010/11 IFRS Code

Sharon Shelton
Director of Finance