

# TONBRIDGE & MALLING BOROUGH COUNCIL

## GENERAL PURPOSES COMMITTEE

31 January 2011

### 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 February 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 February 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 and more recently the associated guidance notes have now been issued. The financial statements accompanying this report have been prepared using the Code only and may be subject to change following review 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 reviewed the restated financial statements in December 2010 and a report will be issued once comparisons have been made between other local authorities in Kent.

## 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 Statement	
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 untaken annual leave 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]**, these were presented to the Audit Committee for its approval in October 2010.

## 1.4 Audit Commission

- 1.4.1 The Audit Commission have maintained a watching brief over Council's in the run up to and preparation of the Final Accounts under the new Code.
- 1.4.2 In addition to the review conducted in December, the Audit Commission have conducted National reviews on the progress being made by local authorities on their preparations. The most recent report was issued in October 2010 and is attached at **[Annex 6]**.
- 1.4.3 The District Auditor, Mr A Mack, presented the report at the Audit Committee on 12 October 2010 and indicated that Tonbridge and Malling had been assessed as 'green' indicating that it was well placed for preparing IFRS compliant accounts. As recorded in the minutes of the meeting of 12 October 2010, Members of the Audit Committee took the opportunity to ask the District Auditor a number of

questions on the merits of the new system and paid tribute to the Accountancy Section in accommodating the considerable amount of work involved and to the District Audit Team for providing the necessary confidence in the Council's progress towards transition. The Audit Committee asked both officers and District Audit representatives to use the offices of their professional bodies to encourage simplification of the new system in order to control corporate costs.

## **1.5 Legal Implications**

- 1.5.1 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.

## **1.6 Financial and Value for Money Considerations**

- 1.6.1 The work that has been undertaken to move our accounts to the new format has been done 'internally' by my accountancy staff. In many councils, consultants have been engaged to assist with this process given the sheer volume of work that it has created.
- 1.6.2 I am sure Members would wish to note that there has been no additional cost arising as a result of this (not insubstantial) exercise. I am very grateful to my staff for the additional work they have 'absorbed' at an already busy time.

## **1.7 Risk Assessment**

- 1.7.1 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.

## **1.8 Equality Impact Assessment**

- 1.8.1 See 'Screening for equality impacts' table at end of report.

## **1.9 Recommendations**

- 1.9.1 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 & Guidance Notes

Sharon Shelton  
Director of Finance

<b>Screening for equality impacts:</b>		
<b>Question</b>	<b>Answer</b>	<b>Explanation of impacts</b>
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*