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**Meeting:** Audit Committee  
**Date:** 27 January 2009  
**Subject:** Third Quarter Close 2009/10 and Progress on IFRS Implementation  
**Report of:** Director of Corporate Resources  
**Summary:** The report provides information on proposals to carry out a third quarter close (to 31 December 2009) and update on progress made in meeting IFRS reporting requirements.

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Contact Officer: Barry Williams, Interim Chief Accountant  
Public/Exempt: Public  
Wards Affected: All  
Function of: Council

#### **CORPORATE IMPLICATIONS**

**Council Priorities:**

None.

**Financial:**

No direct effects, although the exercise will help to provide information on Council balances and identify potential impacts on current spending.

**Legal:**

None

**Risk Management:**

None

**Staffing (including Trades Unions):**

None

**Equalities/Human Rights:**

None

**Community Safety:**

None

**Sustainability:**

None

## **RECOMMENDATION(S):**

1. that the

(a) **Committee note the contents of the report**

### **Background**

1. The Council is required to prepare its annual accounts for presentation to the Audit Committee by the 30 June. To ensure a successful closure process, a third quarter closure is considered to be an important step to accelerate, as far as possible, a number of year-end and ongoing processes prior to the end of the financial year, thereby reducing the work that will have to be undertaken after 31 March.
2. The process has also been developed to incorporate changes to the Statement of Accounts itself arising from both the application of the 2009 Statement of Recommended Practice and the need to generate a Statement of Accounts for Central Bedfordshire Council for the first time.

### **The Approach**

3. The key emphasis of the third quarter close will be;
  - To develop and embed year-end procedures,
  - To consolidate the balance sheets and supporting information from predecessor authorities.
  - To accelerate, where possible, a number of ongoing and year-end processes prior to the end of the financial year.
4. There are a number of outputs expected as a result of this exercise;

#### **a) Format of Accounts**

A draft Statement of Accounts will be produced for Central Bedfordshire, including the Housing Revenue Account transferred from South Bedfordshire District Council.

#### **b) The Core Financial Statements**

Within the Statement of Accounts the core financial statements will be prepared to ensure compliance with the Best Value Accounting Code of Practice and the 2009 Statement of Recommended Practice.

#### **c) Statement of Accounting Policies**

Work is being carried out to harmonise accounting policies of the predecessor authorities. These policies will be evaluated against existing processes to ensure they are compatible. A key part of this work is centred around asset valuation policies due to the large variation in the existing policies of the predecessor authorities due to their respective sizes.

**d) Balance Sheet Disaggregation / Opening Balances**

The final disaggregation of the balance sheet is expected to be completed by the end of January. That part of the balance sheet that will transfer over to Central Bedfordshire plus the balance sheet values from Mid and South Bedfordshire will form the opening balances for the Council at 1 April 2009.

**e) Control and Suspense Accounts**

All key control and suspense accounts will be reconciled to 31 December by the end of January. This work will be clearly evidenced and be available for inspection by audit.

**f) Support Services and Management Overheads**

A significant amount of preparation work will be needed to develop processes to enable the allocation of support services and management overheads to directly managed services to comply with definition of total cost within the Best Value Accounting Code of Practice.

5. External audit are being consulted over the third quarter closure process at an early stage and this will form part of the early audit work in relation to the 2009/10 closure.

**International Financial Reporting Standards (IFRS)**

6. The Council will be required to compile its Statement of Accounts for 2010/11 using IFRS, rather than the current UK Generally Accepted Accounting Practice. This will initially have quite a dramatic effect on both the level of work required to do the closure and the format of the accounts themselves.
7. During 2009/10 the Council has put in place a number of working groups to look at the major areas affected by the introduction of IFRS. The major areas affected are:
  - **PFI projects**, which are covered within the 2009 SORP, and effectively bring PFI projects on to the Council's balance sheet. The Council currently has a PFI project for the improvement of two schools within Mid Bedfordshire at Harlington Upper School and Samuel Whitbread Community College both of which have been granted Foundation School status and are therefore no longer owned by the Council. Discussions are underway with the Audit Commission about the treatment of this project in the 2009/10 Statement of Accounts.
  - **Employee Benefits** including accrued holiday pay. This could involve the Council incurring a significant one year cost for the initial accrual of these benefits, particularly for teachers holiday pay. The Department of Communities and Local Government issued a consultation paper on 17 November 2009 which proposed that this accrual would not be required and the cost would be accounted for in the year the benefits were taken. The results of the consultation are still awaited but it is hoped that the potential cost of the proposal will not now arise.

- **Leases.** IFRS proposes that leases which transfer most or all of the benefits to the lessee will be classed as a finance lease, rather than an operating lease as at present. The impact of this would be to transfer revenue income to capital and adversely affect the revenue position of the Council. Every lease the Council pays, or receives income for, needs to be examined to see what level of risk and reward passes to or from the Council. This will involve a significant level of work, particularly by Property Services, and the impact of this change has yet to be assessed. The consultation paper mentioned earlier also covers this issue and the proposal is to “exempt” all existing leases entered into by the date of the consultation i.e. 17 November 2009, but to introduce IFRS rules for all subsequent lease transactions, which is the preferred option of the Council.
- **Property, Plant and Equipment.** All investment and surplus properties will have to be re-assessed to meet the respective definitions under IFRS. An investment property must be held solely for purposes of income creation or capital gain. Assets which are currently classed as investment properties, such as industrial estates or office developments, were generally built as a result of council policies, such as economic regeneration and would therefore fall outside of this definition. Others such as shops and town centre developments might more appropriately fall within the IFRS definition. Surplus properties can only be classified as such under IFRS if the Council has passed a resolution to dispose of the asset and it actively pursuing its disposal. Land and property holdings that are surplus to requirements may therefore have to be re-classified under this definition.
- **Grants and contributions.** There are some technical accounting changes surrounding the treatment of grants and contributions but none of these impact on the overall finances of the Council.

The Corporate Resources Leadership Team received a report updating the position on IFRS on 16 December 2009. The individual project teams dealing with IFRS issues are developing delivery plans to prepare for IFRS and are expected to report back to CRLT and will receive further updates on an ongoing basis.

Finance staff are preparing new financial statements for 2010/11 to reflect IFRS and are assessing the work involved in re-stating the 2009/10 Statement of Accounts to enable meaningful comparisons between 2009/10 and 2010/11 to take place will be expected to be completed by 30 June 2010.

## High Risk Areas

8. The evaluation of high risk areas within the process will be influenced by the findings of interim managed audits and the recommendations contained within the Annual Governance Reports of the predecessor authorities. Particular reference will however be made to the reserves and provisions to be transferred to the Council to see if they are adequate in the light of the commitments and budget pressures facing the Council.

## Conclusion

9. A third quarter close will help to prepare for a full accounts closure at 31 March as the amount of work to be carried out at that time will be reduced and potential problem areas will be identified at an early stage.
10. A significant proportion of the work surrounding the closure of accounts is carried out within Finance but there are important areas requiring input from other sections and third parties. By carrying out a third quarter close it is anticipated that difficulties in this area will also be identified at an early stage leading overall to a smooth closure process generally.

**Background Papers:** (open to public inspection)

Statement of Accounts 2008/09 – Bedfordshire CC, Mid and South Beds District Councils

**Location of papers:** Borough Hall, Bedford