
Meeting: Audit Committee
Date: 4 April 2011
Subject: 2010/11 Annual Accounts Progress Report
Report of: Assistant Director - Finance
Summary: The report provides information on progress made to date in the preparation of the 2010/11 Annual Accounts.

Contact Officer: Adrian King, Head of Financial Strategy
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

The production of robust financial accounting information directly contributes to the authority's ability to meet its priorities.

Financial:

Financial impacts are anticipated through the adoption of IFRS requirements. These are set out in the report.

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

RECOMMENDATION(S):

- 1. that the Committee note the contents of the report;**
- 2. that the Committee reviews and comments on the proposed Accounting Policies**

Background

1. Central Bedfordshire Council is responding to weaknesses identified in the production of the 2009/10 Statement of Accounts in order that it can achieve its objective of producing timely and robust annual accounts.
2. Significant improvements are being implemented to the financial processes to allow fulfilment of this objective that will allow approval of the annual accounts by the Audit Committee in June and formal approval in September. The improvements, as set out in the report, are being managed through five specific but related workstreams.
3. In addition, the authority is required to compile its Statement of Accounts for 2010/11 using International Financial Reporting Standards (IFRS), rather than the UK Generally Accepted Accounting Practice. The adoption of IFRS also requires the authority to restate its previously reported opening balances as at 31 March 2009 and 31 March 2010.

Annual Accounts Workstreams

4. The report sets out the progress made against each of the major workstreams that are being implemented in order to achieve the objective of achieving timely and robust annual accounts.

These are as follows:

- Implementation of International Financial Reporting Standards;
- Early Assurance Work;
- Year End Closure and Audited Financial Statements;
- Risks and Issues; and
- Achievement of financial outturn (this workstream is being managed separately and is not addressed in this report).

IFRS Review Project

5. The authority has completed its review of the IFRS accounting requirements and finalised its proposed adjustments resulting from the required changes against existing accounting policies and practices. This review identified 19 workstreams for further evaluation. All work has been completed to allow External Audit to review our assumptions at the earliest opportunity and in advance of the end of the financial year. This work has been completed and provided to the Audit Commission within the planned timescales reported to the January Audit Committee.

4. The main outputs from the IFRS Review Project were identified as follows.
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Output	Timescale / Evidence
Draft Format of Key Financial Statements (excluding figures)	End December 2010 <i>(provided to January Audit Committee)</i>
Review of the Individual IFRS Workstreams concluded	End January 2011 <i>(provided to Audit Committee end January 2011)</i>
Restated Opening Balance Sheet Produced	End January 2011 <i>(shown at Appendix A)</i>
Draft Statement of Accounting Policies	End January 2011 <i>(shown at Appendix B)</i>
Comparative Financial Statements Restated	End February 2011 <i>(shown at Appendix C)</i>

Restated Opening Balance Sheet

5. The review of the individual workstreams has resulted in changes to the authority's opening balance sheet position. Transition to IFRS requires the balances reported under SORP requirements as at 31 March 2009 and 31 March 2010 to be retrospectively amended. The changes are due to amendments to format, classification or directly result from new accounting arrangements.

These have no substantive impact on the Authority's cash position, viability or risk profile.

The main changes emerging from the review are:

- the reclassification of Short Term Investments to cash (now recognised as a cash equivalent),
- the reclassification of Government Grants and Contributions deferred to the Capital Adjustment Account as these are now recognised for funding purposes,
- reclassification of Provisions between Current and Long Term Liabilities,
- creation of Provision and Compensated Absences Account that reflects accrued employee benefits .

10. These amendments are shown in **Appendix A** to the report and sets out and explains the changes from the balance sheet produced under SORP to IFRS requirements for the 2009/10 financial year. The appendix includes the adjustments analysed by individual workstream to allow the source of the change to be clearly evident. These proposed adjustments have been provided to the Audit Commission and the conclusion of their review work is anticipated shortly.

Draft Statement of Accounting Policies

11. The adoption of IFRS requires the authority to produce and implement a revised Statement of Accounting Policies. The review of the policies has been concluded and these are set out at **Appendix B** to the report.

Restatement of Key Financial Statements

12. The review of the IFRS annual accounts reporting requirements has been finalised. The new accounts format was provided to the Audit Committee in January but have now been updated to include the restated comparatives for the previous financial year. The restated comparatives as shown in **Appendix C** to the report have been prepared for:

- Movements in Reserves Schedule;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow; and
- Housing Revenue Account.

There is no impact on the General Fund arising from the implementation of IFRS.

Early Assurance Work

13. The authority has undertaken a programme of work to gain the earliest possible assurance over its financial accounting position. This work has previously been referred to a 'third quarter close and has been updated to reflect the continuing work in advance of year end activity.
14. The main objective of This involves a number of activities that predominantly used data from Period 9 and subject balances to tests to other data sources and clear unreconciled / unjustified balances. The process also incorporated actions resulting from the previous year's Annual Governance Report.

15. The process included 60 individual actions for action and identified the following key activities:
- Reconciliation of control accounts (e.g. bank, cash, payroll)
 - Clearance of items held in suspense;
 - Reconciliation of the asset register to financial asset information;
 - Review of validity of capital expenditure against capital expenditure criteria;
 - Generation of depreciation entries for the financial year;
 - Reconciliation of grant capital income to external grant information;
 - Reconciliation of other key areas e.g. VAT, borrowing, investment schedules; and
 - Establishment of financial accounting hierarchies within SAP.
16. At the time of writing the report, 56 of the of the 60 actions had been completed. The outstanding items were in respect of the completion of the financial accounting hierarchies and finalisation of the control and suspense account reconciliations.
17. As previously identified, the key element of this work is in respect of a fundamental review of control and suspense accounts. This work will bring assurance over key balances held within the authority's balance sheet (including cash, bank, Council Tax). All reconciliations have been completed in respect of control accounts with the exception of Council Tax and Benefits. These are due to be completed by the end of March. Intensive work has also been undertaken in respect of the clearance of suspense accounts. At the time of writing the report less than £0.1M remains in suspense. This compares to over £2M as at the end of December.
18. In order to gain overall assurance over the authority's balance sheet, the reconciliation exercise has been extended with the objective of reconciling all balance sheet items. This will include all accrual, fixed asset and reserve codes. Ownership of every account has been agreed and this is planned to be completed by the end of March. It is expected that for 2011-12 and wherever practical such work will be carried out during the financial year on at least a quarterly basis.

Full Year End Close

19. The full Annual Accounts Close process has been reviewed to make substantial improvements to existing procedures and ensure sufficient engagement within financial and non-financial services.

20. A detailed closure timetable has been established and agreed with key officers. Key milestones have been established to allow the accounts to be reviewed in a timely fashion prior to submission to the June Audit Committee. The management and delivery of the annual accounts has been given additional priority and this is being closely scrutinised by the S151 officer and periodic reports are being provided to CMT. The overall objective of the annual accounts process is to allow the earliest possible scrutiny of the accounts by the S151 officer. This is scheduled to be undertaken in the first week of June.
21. It is recognised that that the contribution of all staff (finance and non-finance) is vital to the delivery of robust and timely annual accounts. In order that all services are able to contribute to our annual accounts programme we have implemented:
- a) revised closure guidance for officers;
 - b) regular closure bulletins are being circulated to officers that will advise of key deadlines and activities;
 - c) workshops for officers to inform them of year end requirements in respect of accruals and other key returns;
 - d) attendance at service management teams to advise of year end requirements and take individual questions on the annual accounts process; and
 - e) ensure that all guidance and information is available through the intranet.
22. We are in regular liaison with our external auditors regarding our annual accounts process and share information on progress made across all workstreams. We have agreed with the Audit Commission that a programme of work to be carried out before the end of June on matters such as asset valuations, IFRS presentation, substantive testing from internal audit programme.

Risks and Issues

23. In order to manage a successful year end process the authority has proactively been identifying potential risks and issues and seeking ways that these can be addressed and mitigated. The risks and issues that have been identified below and supporting narrative is provided to give an update on the response to the risk identified. These risks are being shared with the Audit Commission.

24.

- IFRS – risk of not successfully implementing fundamental changes necessitated by the introduction of International Financial Reporting Standards

The main statements have completed and audit almost completed of comparative figures.

- Valuation and Impairment- work continues with Property officers to complete valuations.

The majority of valuation work has been completed and provided to Finance to allow completion of capital accounting entries associated with this area. The outstanding schedules are due to be provided by the end of March.

- Interim Appointments - both posts (Chief Accountant and S151 Officer) recruitment progressing.

Difficulties are being encountered in attracting the depth of candidate required to fill the Chief Accountant role and this recruitment has been temporarily put on hold. However, arrangements have been put in place to ensure that the current Interim Chief Accountant remains with the authority until the end of September.

- Payroll- Officers working with Audit to establish reports required.

The format and scope of the substantive audit work on payroll has been agreed and this work is scheduled to commence in April.

- Housing Benefits and Council tax- uncertain progress to date on reconciliations

These control accounts have been prioritised for review and reconciliation by the end of March.

- Wider concerns on the scope and quality of reconciliation in advance of the year end; ensure that debtors and creditors, beyond Housing benefits and Council tax and fully reviewed, reconciled and agreed

All balance sheet codes are scheduled for review and reconciliation by the end of March. The balance sheet reconciliation process will be continued during the year end and early reviews carried out to identify risk areas.

- Ensure that audit working papers are effective and that audit issues are promptly resolved

A timetable has been agreed and audit working papers will be fully reviewed before they are finalised; Accountabilities has been clarified to support prompt resolution of queries.

Conclusion

25. Significant progress is being made in managing the transition to the IFRS accounting requirements. This will provide a substantial benefit reducing the workload in the preparation of the annual accounts.
26. Early assurance work is being undertaken that has allowed significant progress in the reconciliation of control accounts and clearance of items held in suspense. Other reconciliation work and closure activities have also been undertaken to plan. However, risks remain in the management and clearance of Council Tax / NNDR balances.
27. The full year annual accounts exercise has commenced and additional actions are being implemented to ensure compliance across all of the authority. The annual accounts plan is scheduled to deliver the draft accounts for scrutiny by the s151 officer in early June.
28. Risks and issues are being proactively managed to ensure the delivery of a successful annual accounts process.

Background Papers: (open to public inspection)

None