

05 April 2011		ITEM 7
Audit Committee		
UPDATE ON PROGRESS OF THE FINANCIAL STATEMENTS, PREPARATION OF ACCOUNTS AND THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS		
Report of: Sean Clark, Head of Corporate Finance		
Wards and communities affected:	Key Decision:	
N/A	N/A	
Accountable Head of Service: Sean Clark, Head of Corporate Finance		
Accountable Director: Martin Hone, Corporate Director of Finance and Corporate Governance		
This report is Public		
Purpose of Report: To keep Members informed as to the progress on the production of the Financial Statements, preparation of accounts and implementation of the International Financial Reporting Standards and progress against the recommendations of the Annual Governance Report.		

Comment [s]: Please leave this for completion by Democratic Services

Comment [a j]: Please enter the name and job title of the person who will be presenting the report

Comment [s]: Please enter details of any Wards and Communities affected by the report. If this section is not applicable, you should enter "none".

Comment [s]: Yes/No/Not Applicable – a 'Key Decision' is generally one affecting more than 2 wards or above £50,000 expenditure – see Guideline 2.7

Comment [sj]: Please state the Head of Service's name and job title

Comment [sj]: Please state Director's name and job title

Comment [sj]: State whether your report is Public or Exempt. If Exempt (i.e. not to be given to the public or discussed in public), you should provide the reason for the this. For information, this is set out in the Constitution under Access Rule 12 – see Guideline 2.8

Comment [sj]: Briefly set out the purpose of your report

Comment [sj]: Please provide a summary of the key points in your report

Comment [s]: The recommendations should be set out in bold in the form of the decision that the decision-maker is being asked to make - See para. 5.2 of the report writing guidelines

**EXECUTIVE SUMMARY**

This report is keep the Audit Committee informed as to the progress of the production of the Financial Statements, preparation of accounts and implementation the International Financial Reporting Standards (IFRS) and progress against the recommendations of the Annual Governance Report.

**1. RECOMMENDATIONS:**

- **Members note and comment on the steps taken by the Council to ensure the production of the financial statements.**
- **Members note and comment on the progress of the implementations of IFRS.**
- **Members comment on the treatment of non current assets.**
- **Note the progress made against the recommendations of the Annual Governance Report.**

**2. INTRODUCTION AND BACKGROUND:**

- 2.1 The Committee will be aware that the annual financial statements have to be produced on an IFRS basis from the financial year 2010/11.
- 2.2 The Council is required to produce its statement of accounts in accordance with the Code of Practice of Local Authority Accounting (the Code) which is based on IFRS. As a result it is necessary to restate the 2008/09 balance sheet and the 2009/10 primary statements in accordance with the Code.
- 2.3 A draft 2008-09 restated balance sheet has been passed to the external auditors and some queries have already been raised and these are currently being worked through.
- 2.4 The restated IFRS 2008-09 balance sheet is shown at Appendix 1 as compared with the UK GAAP prepared balance sheet.
- 2.5 There is a difference in the figures included under IFRS from the UK GAAP (Generally Accepted Accounting Practice) under which the 2009-10 and the comparator for 2008-09 accounts were produced. The major changes as a result of IFRS is the writing out of the accounts of deferred government grants to the Capital Adjustment account, the 2008-09 assets have been adjusted for the removal of the Foundation schools, the creation of a Short Term Accumulating Absence Account for untaken annual leave at the end of the financial year and the allocation of revenue and capital grants between receipts in advance, if have conditions, and usable receipts if no conditions, the cash equivalent figure includes the Council's overnight investments as these are deemed as liquid as they repaid the following day.
- 2.6 The 2009-10 accounts are currently being restated, this has been held up as a result of the valuations not being received on time, the restructure of Corporate Finance and the lack of information on embedded leases from Vertex. An update will be given to members at the meeting. If necessary further resources will be brought to ensure that the accounts are produced by the deadline with appropriate good quality working papers.
- 2.7 The valuations for 2008-09 and 2009-10 have been provided by the Valuers and the fixed asset register has been updated. Some of the classifications of the non current assets have been challenged by the external auditors. There is still discussion as to how to treat the public houses in the balance sheet, the Council has identified the treatment as investment assets and the Audit Commission believe these should be treated as community assets as they were built for the benefit of the housing estates.
- 2.8 The vast majority of the lease reviews have been completed, however the Council is still waiting on information from Vertex on the assets that they have for the use on the contract with Thurrock Council. At the time of writing this report Vertex are still working on producing the information.
- 2.9 The Corporate Finance team restructure has been completed and as a result the team still has 3.6 vacant posts that have yet to be filled. This will put pressure on the Corporate Finance Team to ensure that the accounts are

Comment [s]: You should briefly explain why the report is on the agenda - See para. 5.3 and 5.4 of the report writing guidelines.

produced within the deadline and that the working papers are of a high enough standard.

- 2.10 A briefing session has been held for all staff in Corporate Finance on the Comprehensive Income expenditure account. This highlighted the differences between what is produced monthly for Director's Board and the quarterly Cabinet reports and the make up of the cost of services in the income and expenditure account.
- 2.11 The Accounts and Audit Regulations have been amended so that it is only the Chief Finance Officer who has to sign the accounts by 30 June. The revised regulations were laid before Parliament on 21 March 2011 and come into effect on the 31 March 2011. This removes the requirement for the accounts to be approved by a Committee of the Council prior to the audit of the statement of the accounts. However, it is proposed that the accounts are brought to the Audit Committee for the first available meeting after they have been signed off.
- 2.12 The requirement is that a committee of the Council approves the accounts once the audit has been completed. This brings local authorities in line with the private sector.
- 2.13 Corporate Finance still faces a difficult challenge in producing the accounts on an IFRS basis, however the accounts will be produced for audit by the 30 June 2011.
- 2.14 The reconciliations for the feeder systems, Accounts Receivable and Accounts Payable, and the cash and bank reconciliations are up to date.
- 2.15 The Progress against the recommendations made in the Annual Governance Report are shown in Appendix 2.

### 3. **ISSUES AND OPTIONS:**

- 3.1 If the Corporate Finance team are unable to recruit suitably qualified staff to the vacant posts this will impact on the ability to deliver on the production of the financial statements in the future.
- 3.2 Any further delay in getting the required information from Vertex could have implications for the production of the accounts.

### 4. **CONSULTATION (including Overview and Scrutiny, if applicable)**

- 4.1 Both the Committee and the Audit Commission will be briefed on progress in implementing IFRS.

### 5. **IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

- 5.1 The introduction of IFRS is part of a wider strategy to improve financial management and reporting across the Council to support other corporate policies such as asset management.

**Comment [s]:** Other headings may be appropriate. The report should outline the reasoning that leads to its recommendations and **must** include:

1. a brief summary of options considered;
2. consultation outcomes
3. a risk assessment.
4. Whether the responsible cabinet members have been consulted/contributed to the report (NB professional and political advice must be clearly distinguished)

- See para.5.5 of the report writing guidelines.

6 **IMPLICATIONS**

6.1 **Financial**

Implications verified by: **Meinir Hall**  
 Telephone and email: **01375 652147**  
**mhall@thurrock.gov.uk**

The budget for Corporate Finance includes the funding of the costs of IFRS. The costs incurred will be contained within the available budget.

6.2 **Legal**

Implications verified by: **David Lawson**  
 Telephone and email: **01375 652087**  
**dlawson@thurrock.gov.uk**

Local Authorities are required to adopt International Financial Reporting Standards (IFRS) by the financial year 2010/11. This will require a transition from current financial reporting standards. There are no direct legal implications arising from the report – should any legal implications arise relating to the transition to International Financial Reporting Standards these will be reviewed by legal staff on an ongoing basis.

6.3 **Diversity and Equality**

Implications verified by: **Samson DeAllyn**  
 Telephone and email: **01375 652472**  
**sdealyn@thurrock.gov.uk**

There are no diversity and equality implications.

6.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

None

7. **CONCLUSION**

7.1 The timetable for implementing IFRS is challenging, given the Council’s limited resources and the other financial pressures that are currently being dealt with. However, resources have been allocated to produce the accounts in accordance with IFRS and the Council is confident of producing the restated accounts by the stated deadline.

**Comment [sj]:** This section should always be completed – if they are dealt with fully in another part of the report, they also need a brief cross reference here. The names and job titles of the officers providing the implications should be provided in full – see Guideline 6.1 and please note Democratic Services Deadlines and ensure that officers providing implications are given 5 clear working days to work on the report. Authors can write implications but they must be signed off by the appropriate officers

**Comment [sj]:** See Guideline 6.2

**Comment [sj]:** See Guideline 6.3

**Comment [sj]:** See Guideline 6.4

**Comment [sj]:** This should inform the recommendations in the report

**BACKGROUND PAPERS USED IN PREPARING THIS REPORT:**

- None

**Comment [sj]:** See Guideline 8. If any Papers are to be placed in the Members room that relate to this report, you should also list them here

**APPENDICES TO THIS REPORT:**

- Appendix 1
- Appendix 2

**Comment [sj]:** List the Appendices referred to in the Report

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**Comment [sj]:** Insert the full contact details of the author of the report