

**Audit Committee - 18 January 2011**

**International Financial Reporting Standards (IFRS): Progress Update**

**Summary of report**

This report sets out an update on progress on implementing IFRS and to present sample disclosures of the core statements which will be included in the 2010/11 Statement Of Accounts.

**Recommendations:**

1. To note the progress in respect of the conversion to IFRS and to examine the format of the revised accounting statements at **Appendix 1**.



James Walsh  
Chief Finance Officer

06 January 2011

**Background**

At 25 October 2010 Audit Committee the project was outlined and the overall timescales were discussed.

The project is still on target for completion within the statutory timescale of 30 June 2011. The opening balance sheet and respective disclosures are complete, however work is still ongoing to fully review the adjustments to the statement of accounts based on the new accounting standards and to provide a suitable audit trail.

The notable impact from the introduction of the international standards is within the format of the Statement of Accounts. Not only will the new document be larger but the core statements such as the income and expenditure account and balance sheet will look different and some of the terminology has changed. **Appendix 1** shows what the new statements will look like.

At 12 April 2011 Audit Committee another report will be issued to discuss the financial adjustments to the accounts.

## **Resource and Legal Considerations**

There are no direct financial or legal implications, however the council is responsible for ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.

## **Risk Management**

None relating directly to this report.

## **Equality implications**

None relating directly to this report.

## **Consultation**

The report is prepared in consultation with relevant senior managers.

## **Background Papers**

International Financial Reporting Standards.

International Accounting Standards.

Code of Practice on local authority accounting in the United Kingdom 2010/11.

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### Progress Update: Annual Audit and Inspection Letter (AAIL)

Report and issue date	Recommendation	Progress Report
2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)	<p>Review identified historic balances within debtors which are up to 20 years old.</p> <p>We are aware that these debts had been fully provided against but recommend that the council should consider whether these amounts are written off, as they are inflating both debtor and provision figures.</p>	<p>The new automatic debt management process means that 'new' debts are processed for write off in a timely manner as part of the debt monitoring process, and therefore the level of debts that become statute barred should reduce.</p> <p>The reduced volume of aged debt can be evidenced by the fact that statute barred housing benefit debt now stands at around £80k (previously this was almost £595k). However in respect of sundry debts there are still a number of statute barred debts that are awaiting write off approval from the service areas and also a number of debts that have had approval from the service area but the write off's are pending processing.</p> <p>The Finance Direct programme and the restructure of financial administration will continue to identify and improve the write off procedures to enable debt to be reduced</p>
2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)	<p>Testing identified a bad debt write off request which had not been signed by an authorised signatory but was still actioned.</p> <p>The debtors control team should ensure that they are only accepting bad debt write off requests from</p>	<p>Further checking and quality control has been implemented by the debtors control team.</p>

authorised signatories.

2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)

The payroll reconciliation sampled (week 52) had been signed by the preparer but not evidenced as reviewed.

The Payroll to Oracle reconciliation sheet produced by the payroll section has been edited to take out obsolete information and has been renamed 'Payroll to Oracle Confirmation sheet' to more accurately reflect its purpose.

In addition, we noted that whilst the payroll reconciliation was initialled by the Oracle Finance team to confirm receipt, it was not signed to show that the payroll data has been uploaded onto the Oracle system.

The upload of payroll data to Oracle is now evidenced and contained on the feeder control log held in the systems office.

We recommend that the review of payroll reconciliations and the upload of data to Oracle is evidenced.

2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)

The fixed asset register is currently updated on an annual basis.

We would expect this to be completed on a more regular basis so as to:

- demonstrate maintenance of up to date accounting records;
- spread the work load throughout the year; and
- identify any anomalies on a timely basis.

Whilst this is appropriate in the private sector where capital expenditure is accounted for in the same method as revenue, within the council capital spend is monitored as normal during the year, however can only be cleared down and processed to the balance sheet as spend at year end when funding is matched to each project. Not all spend relates directly to a movement in asset values and needs analysing with accountants and project managers between added value and non added value before entries to the asset register can be made.

Valuations need to be undertaken as close to the year end date as possible to avoid the need to revalue again if market conditions dictate and to demonstrate to audit that the values are the most recent. Impairment memos are also issued at year end to ensure that all fluctuations are accounted for.

An asset management system is currently being procured,

therefore it is suggested that this recommendation is reviewed again in the future.

2008/09 ISA260 report to those charged with governance (issued September 2009)

The council should identify residual values for relevant assets and use these to calculate depreciation charges in future Statement of Accounts.

After further discussion with Grant Thornton, Walsall Council consider residual values as part of the valuation process.

2008/09 ISA260 report to those charged with governance (issued September 2009)

The council should review the percentage rates applied to calculate bad debt provisions annually against current collection patterns to ensure the percentages remain appropriate.

Collection fund bad debts are reviewed annually. For council tax this % is based on a calculation using current collection patterns, historic and projections. For NNDR in 2008/09 the council substantially increased the % for debt outstanding based on current conditions and collections. For 2009/10 a similar approach used for council tax was applied to NNDR to ensure collection patterns are reflected in the bad debt provision.

For sundry debt this is also reviewed annually and at various points throughout the year. For 2009/10 data has been collected to work out a debt collected against what was billed, and using historic data will enable the council to calculate a trend pattern and adjust for changes in current collection patterns. All sundry debt is based on individual invoices rather than total balances so the council can apply a higher % against a customer who has a history of bad payment or is deemed to be in financial difficulty. This way we can provide 100% against an invoice even if it is current year.

## Conversion of Comprehensive Income and Expenditure Statement from SORP to IFRS

### SORP statements

#### Income and Expenditure Account

Adult social care  
Central services to the public  
Education & children's services  
Corporate & democratic core  
Court services  
Cultural, environmental, regulatory & planning services  
Highways & transport services  
Housing services  
Non-distributed costs  
**Net cost of services**

(Gain) or loss on disposal of fixed assets  
Environment Agency levy  
West Midlands transport levy  
(Surplus) or deficit on trading undertakings not included in net cost of services  
Interest payable and similar charges  
Contribution of housing capital receipts to government pool

Interest and investment income  
Pensions interest cost and expected return on pensions assets  
**Net operating expenditure**

Income from the collection fund  
General Government grants  
National non-domestic rate redistribution  
**(Surplus) or deficit for the year**

#### STRGL

(Surplus) or deficit on the income and expenditure account  
(Surplus) or deficit arising on revaluation of fixed assets  
(Surplus) or deficit arising on revaluation of available for sale financial assets  
Actuarial (gains) and losses on pension fund assets and liabilities  
Any other (Gains) and losses required to be included in the STRGL  
**Total recognised (gains) and losses for the year**

### IFRS Statement

#### Comprehensive Income and Expenditure Statement

Adult social care  
Central services to the public  
Education & children's services  
Corporate & democratic core  
Court services  
Cultural, environmental, regulatory & planning services  
Highways & transport services  
Housing services  
Non-distributed costs  
**Net cost of services**

#### Other operating expenditure

- precepts  
- levies  
- payments to the capital housing receipts pool  
- gains and losses on the disposal of fixed assets

#### Financing and investment income and expenditure

- interest payable and similar charges  
- pension interest cost  
- expected return on pension assets  
- interest income  
- income, expenditure depreciation and impairment of investment properties  
- other investment income  
- (Surplus) or deficit on trading undertakings not included in net cost of services

#### Taxation and non-specific grant income

- council tax income  
- NNDR distribution  
- non-ringfenced government grants

#### Surplus or deficit on provision of services

(Surplus) or deficit arising on revaluation of fixed assets  
(Surplus) or deficit arising on revaluation of available for sale financial assets  
Actuarial (gains) and losses on pension fund assets and liabilities

Other comprehensive income and expenditure

#### Total comprehensive income and expenditure

ment

<b><u>SORP statement</u></b>	<b><u>IFRS detailed balance sheet</u></b>
<b><i>Fixed assets</i></b>	Property, plant and equipment
Land and Buildings	→ - land and buildings
Vehicles, plant, furniture and equipment	→ - vehicles etc
Infrastructure assets	→ - Infrastructure assets
Community assets	→ - Community assets
Assets under construction	→ - Assets under construction
Investment properties	→ Investment property
Intangible assets	→ Intangible assets
Surplus assets held for disposal	→ Long term investments
<b>Total fixed assets</b>	→ Investments in associates and joint ventures
	→ Long term debtors
Long term investment	<b>Long term assets</b>
Long term debtors	
<b>Total long term assets</b>	
<b><i>Current assets</i></b>	
Investments	→ Short term investments
Stock and work in progress	→ Inventories
Debtors	→ Short term debtors
Landfill allowance trading scheme	→ Landfill allowance trading scheme
Cash and bank	→ Cash and cash equivalents
<b>Total current assets</b>	→ Assets held for sale
	<b>Current assets</b>
<b>Total assets</b>	
<b><i>Current liabilities</i></b>	
Bank overdraft	→ Bank overdraft
Borrowing repayable on demand or within 12 months	→ Short term borrowing
Landfill allowance trading scheme	→ Short term creditors
Creditors	→ Liabilities in disposal groups
<b>Total current liabilities</b>	<b>Current liabilities</b>
<b>Total assets less current liabilities</b>	
<b><i>Long term liabilities</i></b>	
Deferred liabilities	→ Long term creditors (inc deferred liabilities)
Provisions	→ Provisions
Long term borrowing	→ Long term borrowing
Government grants deferred and contributions	→ Other long term liabilities
Capital grant unapplied	→ - Capital grants receipts in advance
	→ - Finance leases
Liability related to defined pension scheme	→ - Liability related to defined pension scheme
<b>Total long term liabilities</b>	<b>Long term liabilities</b>
<b>Total assets less liabilities</b>	<b>Net assets</b>
<b><i>Useable reserves</i></b>	<b><i>Useable reserves</i></b>
General fund reserve	→ - General fund reserve
Useable capital receipts reserve	→ - Collection fund reserve
Earmarked reserves	→ - Earmarked reserves
<b>Total revenue reserves</b>	→ - Useable capital receipts reserve
<b><i>Capital reserves</i></b>	<b><i>Unuseable reserves</i></b>
Capital adjustment account	→ - Capital adjustment account
Revaluation reserve	→ - Revaluation reserve
Collection fund reserve	→ - Financial instruments adjustment account
Collection fund adjustment account	→ - Available for sale financial instruments reserve
Financial instruments adjustment account	→ - Pensions reserve
Available-for-sale financial instruments reserve	→ - Unequal pay back pay account
Unequal pay back pay account	→ - Capital grants unapplied
Deferred capital receipts	→ - Accumulated absences account
<b>Total capital reserves</b>	→ - Deferred capital receipts
	<b>Total reserves</b>
Pension reserve	
<b>Total net worth</b>	