

South Derbyshire District Council International Financial Reporting Standards (IFRS) Restatement Review - work performed to February 2011

March 2011



Introduction and background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based on International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11.

Audit objective

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and a review of restatement work completed by the Council to date. This work has been undertaken as part of our interim audit for the 2010/11 financial statements audit. A summary of the work performed is given on page 2.

Issues and risks identified from this work are documented on pages 3 to 6.



Summary of work performed

Management Arrangements Review

For each significant balance sheet item we have considered the Council's arrangements against each of the following questions:

- Are the Council's arrangements for identifying and reporting their accounting policy adequate?
- Are the Council's arrangements for identifying and reporting their adjusted UK GAAP values at 1 April 2009 adequate?
- Are the Council's arrangements for reporting IFRS values adequate?
- Are the Council's arrangements for restating their notes to the balance sheet adequate?
- Are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green	Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.
Amber	Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. There is evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Our findings are detailed on pages 3 to 6 of this report. Where items and areas have been assessed as amber or red we have discussed these with officers and, as appropriate, made recommendations on pages 5 and 6.

Adequacy of arrangements

Summary of findings

At the time of our review in February 2011, the Council had not fully completed the restatement of figures for 1 April 2009 and the 2009/10 accounts. CIPFA guidance recommended that all local authorities completed this element of the restatement exercise by 31 December 2010.

We have discussed restatement work performed to date with the responsible officers and obtained copies of any supporting work papers available.

We note that in respect of fixed assets, due to software issues with the CIPFA asset management system, the Council has not yet been able to determine the final accounting entries required to restate the 1 April 2009 and 2009/10 accounts balances. We understand that this will be resolved as part of the year end closedown procedures, that will be subject to audit in August 2011.

In addition, we were unable to review the grants unapplied account or the accrual for benefits payable during employment, (eg, holiday pay) as the Council had not completed its work in these areas.

Conclusion on restatement - February 2011

Fixed assets, grants and employment benefits represent three of the most significant elements of the accounts restatement exercise and, while progress has been made in each area, these areas remain incomplete. As a result, we are unable to conclude on the Council's restated position for 2009/10 at this time. T

his raises concerns over the Council's ability to present IFRS compliant accounts for audit, and to meet statutory deadlines, which could have contract implications for Northgate. as the outsourced provider. As the client, the Council should ensure that it actively engages with Northgate to resolve the outstanding matters quickly and monitors compliance with agreed milestones and contract requirements, to ensure it can discharge its own responsibilities in relation to the accounts.

Our findings are detailed on pages 4 to 6 of this report and include recommendations which have been discussed with officers.



Adequacy of arrangements - findings

G = Green A = Amber R = Red

Assets

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	A	G	A	R	G	A
Investment properties	A	A	A	R	G	A
Trade & other receivables	G	G	G	G	G	G
Investments	G	G	G	G	G	G

Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables	G	G	G	G	G	G
Bank overdraft	G	G	G	G	G	G
Current liabilities	R	R	R	R	R	R
Non-current borrowings	G	G	G	G	G	G
Non-current financial liabilities	G	G	G	G	G	G
Non-current other liabilities	A	A	A	R	A	A
Taxpayers equity						R

Adequacy of arrangements - issues and risks identified

Item	Issue/Risk identified	Next steps	Council response/update
IFRS project plan	The Council has prepared a summary of IFRS transitional issues but does not have a project plan in place for IFRS restatement. This has led to a lack of focussed oversight and lack of accountability for the completion of work.	The Council should ensure that a project plan is established for all future projects of this magnitude that assigns responsibility and internal deadlines for the completion for work areas.	Acknowledged and noted for the future.
Materiality	The Council has not yet determined the materiality level to be applied to IFRS restatement work.	The Council should establish a materiality level as soon as possible.	This was completed shortly after the review and will be based on the Council's Net Revenue Expenditure as recommended by the Chief Finance Officer.
Benefits payable during employment accrual	At the date of review the Council had not devised a definitive methodology or collated the information to be able to calculate the accrual. As such we have not been	The Council should devise a methodology and collate the required information.	The methodology has also been completed and steps are in place to collate the information by 21 st April 2011.
Accounting polices	Revised accounting policies have not yet been approved by members.	Revised accounting policies should be presented to members for approval prior to the approval of the 2010/11 financial statements.	These will be reported to the Committee on 22 nd June 2011.

Adequacy of arrangements - issues and risks identified

Item	Issue/Risk identified	Next steps	Council response/update
Segmental reporting	The disclosure format proposed by the Council is not consistent with the format presented to members for quarterly financial reporting.	Under IFRS 8 Operating Segments, information should be disclosed on the format used by the Chief Operating Decision Maker, which for local authorities is the members. The Council should review the proposed segmental disclosure format against the requirements of IFRS 8 to ensure that it is compliant.	For confirmation, the disclosure format will be consistent with that reported to Members on a quarterly basis.
Government grants unapplied	The Council is still completing its review of items in the account and grant conditions attached to determine whether restatement is required.	The Council should complete this work as soon as possible.	Some information is still outstanding regarding the confirmation of grant conditions. However, this has been reflected in the closedown plan and will be completed before the accounts are finalised.
PPE	The Council has not yet determined the adjustments that need to be made in respect of PPE, due to a software issue. There is a risk that the outputs from the asset management system are not IFRS compliant.	The Council should monitor the situation with regard to the asset management system and ensure it understands the changes made to software. This will enable it to be able to review the system outputs thoroughly.	An upgrade to the software has now been completed. Final information is being input and reports will be generated imminently for the financial statements. However, it will continued to be monitored until the outputs required are finalised.



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