
EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 5 JULY 2011

AUC.42/11 IFRS RESTATEMENT OF 2009/10 ACCOUNTS

The Audit Manager submitted the International Financial Reporting Standards (IFRS) Restatement of 2009/10 Accounts for Carlisle City Council.

He explained that the City Council's financial statements for 2010/11 would be based upon IFRS, the motivation for the move to IFRS reporting in the public sector being 'to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice'. In preparation for that change, Councils must restate their 2009/10 accounts on an IFRS basis. Accordingly he needed to review the restated figures in order to gain assurance over the comparative figures included in the 2010/11 accounts, which formed part of his audit opinion work for 2010/11.

He had discussed the restatement exercise with Officers in order to gain an understanding of relevant factors. For that exercise he had determined materiality in the same way he would set it for the audit of the financial statements.

The Audit Manager drew Members' attention to the main conclusions set out in his report, commenting that the Council had produced a set of skeleton 2010/11 accounts in line with CIPFA guidance. He had reviewed the skeleton accounts, which included the 2009/10 restated figures, and found that the Council had made good progress and had produced comprehensive working papers to support the restated figures.

There were, however, some significant areas where further consideration and justification of the treatment adopted by the Council was required. Details of the most significant matters, together with a full list of issues to be addressed were set out in the report and Appendix 1 thereto.

The Audit Manager emphasised that one such major issue related to Leases and he provided a detailed explanation of the matter for the benefit of Members. He particularly highlighted the significant amount of work required in addressing the issue.

He further outlined the position with regard to capital grant receipts and disclosure requirements.

The Financial Services Manager referred to the recommendations contained within the Action Plan at Appendix 3 to the report. With the exception of the issue of Leases which was still outstanding, those had now been built into the Statement of Accounts which the Committee would consider at Agenda item A.6.

The Chairman sought clarification of the implications for the Council's Accounts should the issue not be resolved.

The District Auditor replied that if the matter was not resolved she would either qualify the Accounts or continue working on the matter. She was not overly concerned at this time.

A Member questioned whether the new IFRS reporting requirement would result in a greatly increased workload for the Council's Officers.

In response, the Audit Manager said that re-statement was a substantial exercise and the work required very significant. On the issue of Leases for example, much more detailed investigation was needed since certain Leases were in excess of 25 years old.

A Member noted that there was clearly an element of disagreement around the classification and treatment of certain leases as finance leases. He questioned whether it was a material disagreement and what impact that may have on the Council itself.

The District Auditor said that it may well have implications for the Council. It was important to ensure that the classification element was correct going forward.

The Financial Services Manager added that it would be necessary to consider each lease in turn. Discussions were taking place with the Audit Manager, and she hoped that the matter would soon be resolved and would not continue past September 2011.

Referring to capital grant receipts, a Member asked whether it was necessary for the Council to make provision and guard against the possibility of any obligation to repay grant to the NWDA in the event that conditions had not been met.

The Audit Manager replied that the requirements were being met for the 2010/11 Accounts. He added that work would be required in connection with the 2011/12 Accounts.

The Member stressed that substantial sums of money were involved and emphasised the need to highlight that element of risk both from an accountancy and broader point of view.

RESOLVED – (1) That the Audit Committee recognised the considerable amount of work which had been undertaken in relation to the restatement of the 2009/10 Accounts and thanked the Audit Commission and Officers for their input.

(2) That the Audit Committee wished to draw the Executive's attention to the issue of Leases and, in particular, the importance for the Council of ensuring that leases were correctly classified in the future.