Government and Public Sector

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Medway Council

2006/07 Report to those charged with governance

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Dear Councillors

2006/07 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2006/07. We hope that the information contained in this report provides a useful source of reference for Members.

Yours faithfully

PricewaterhouseCoopers LLP

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Contents

Introduction

The purpose of this report

This report summarises the results of our 2006/07 audit of the Medway Council financial statements.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you in April 2006. We have issued or plan to issue a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

Financial statements

Accounts

We have now substantially completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. At the time of writing this report we anticipate issuing an unqualified audit opinion on the financial statements.

There have been significant changes to the presentation of the financial statements with the introduction of an Income and Expenditure Account rather than a Consolidated Revenue Account, the removal of the Asset Management Revenue Account, the introduction of a Statement of Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses (STRGL).There has also been a significant change on the financing of schools expenditure with the introduction of the Dedicated Schools Grant. We have worked closely with the key contacts at the Authority to ensure that the changes to the accounts required have been addressed.

The work undertaken has ensured that the audit has progressed as efficiently as possible. The main issues that we have identified and discussed with management during the course of our audit are set out below and the more detailed findings and control issues have been documented in Appendix D.

In addition, we have set out in Appendix F two significant future accounting matters that we wish to bring to your attention on the introduction of a revaluation reserve in 2007/08 and developments on international financial reporting standards.

Accounting issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are set out in appendix B to this report and the more significant issues are discussed below.

Expenditure Recognition

The Council does not accrue for payroll expenditure on overtime and adjustments incurred in March, the financial year-end. Additionally, the Council accounts for audit fees on the basis of work completed rather than the amount due for each audit year. The residual amounts are charged to revenue when paid in the following financial year. Full accrual for these two items would reduce revenue reserves as at 31 March 2006 by 691,000.

There is no proper accounting practice for local authorities to defer the recognition of either of these amounts, which therefore should be charged to revenue in the year to which the cost is attributable.

As a result of this significant departure from expected accounting practice, we have also needed to consider other related accounting practices in order to assess the overall impact on the financial statements. In common with many other councils, Medway recognises expenditure on energy and telephones on bills paid in a 12 month period rather than on a full accruals basis. As long as there is no significant increase in the contract prices, this ensures that expenditure in any year is not materially understated. The impact of the full accrual of these amounts has not been quantified but prior year estimates found it to be no more than £300,000.

Revenue & Benefits Trading Organisation

Medway Council maintains an internal trading account in respect of the Revenue and Benefits Services (RBS).

The RBS trading account operated at a deficit in both 2004/5 and 2005/06. These deficits had been charged to the General Fund as deficits on trading activities and had not been charged to the cost of providing the revenue and benefits service. The justification for not showing the deficits as part of the cost of the service was that deficits in the first years of the contract were anticipated and expected to be offset by planned trading surpluses in the later years.

Financial performance has improved in 2006/7 with a trading surplus of £143,000 compared with the trading deficit of £159,000 in 2005/06. However, the trading account is still showing a reserve deficit balance of £345,000. We have previously questioned the validity of the Council's treatment of the accumulated loss and it is our continuing view that proper accounting practice requires this to be recognised as a cost of service.

The combined effect of all unadjusted misstatement in the accounts, noted in Appendix D has been to overstate revenue reserves by an estimated £1,286,000. We have concluded that in respect of 2006/07 these unadjusted errors would not affect our opinion on the accounts.

Accounting practices and systems of internal control

We report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have detailed below the key issues that we have identified from our audit work. The full list of the more significant matters identified during the audit that we wish to bring to your attention are included at Appendix D to this report. Less significant matters have been included in the Internal Control Reports presented to management. Appendix E contains details of the Authority's progress against control recommendations raised in previous external audit reports.

Capital Accounting

Capital accounting is important for the Authority as it underpins the financial statements and informs the asset management strategy and capital budget monitoring. We have highlighted in the past a number of accounting and control issues around accounting for fixed assets and the Authority's capital programme. Improvements have been made by the Authority during 2006/07 with the implementation of the new asset management system; Logotech. However, there remain a number of areas for further improvement to ensure full compliance with the Statement of Recommended Practice (SORP 2006) and good practice. These areas include accounting for additions and enhancements to fixed assets, accounting for deferred government grants and accounting for unapplied capital grants and developer contributions. The matters arising and our recommendations are set out in appendix D. The Authority needs to address these matters to improve its capital accounting arrangements and prepare for the changes in the SORP for the 2007/08 financial year such as the requirement to operate a revaluation reserve from 1 April 2007 (see Appendix F).

Debtors and Bad debt provisions

The Authority maintains doubtful debt provisions against a range of debtor balances including council tax, housing rents, social services charges and sundry debtors.

We have raised concerns in previous years on the method of calculation and adequacy of the provisions for social service charges and sundry debtors. Our audit work this year identified a number of exceptions which indicate that the authority's debt provision process is not sufficiently robust and is constrained by the budget allocation. Further details can be found in appendix D to this report.

Financial Standing

Financial Performance for 2006/7

The Council reported an under-spend against budget of £59,000 for the financial year 2006/7, which included a contribution from reserves of £1.2 million. However, there were significant overspends of £2.4 million in Community Services and £0.9 million in Children's Services. The Council achieved its outturn by managing underspends in the business support department directorate and by earning significantly more income on investments than that budgeted.

The 2007/8 financial year and outlook

The latest financial information for 2007/8 is forecasting a deficit against budget for 2007/8 which would have a significant impact on the level of revenue balances held by the Council. The Council's unrestricted reserve balances are limited to a £7.7m general fund balance and £3.7m in the general reserve balance. The anticipated levels of spending will place significant financial pressures on the Authority in the medium term that will require the Authority to review and revise its current medium term financial plan.

Collection Fund Deficit

We commented in last year's report on the increased level of deficit on the Collection Fund and noted the need to reduce this deficit in future years We are pleased to note that the has been reduced significantly from £828,000 in 2005/6 to £189,000 in 2006/7.

Internal Audit

We have maintained a good working relationship with the Authority's Internal Audit service during 2006/07 and have been able to place reliance on the work performed by Internal Audit in areas of our financial statements audit. This enables us to perform a more focused audit in higher risk areas and to avoid unnecessary duplication of work.

Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption

At the time of writing this report we have reviewed the reports produced by Internal Audit for the Audit Committee on the cases of fraud and irregularity that they have investigated. There have been no other matters to report arising from our audit work.

The Legality of Financial Transactions

There have been no matters to report arising from our audit work.

Use of Resources

Use of Resources Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements in 2006/7 for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission.

We intend to issue an unqualified use of resources conclusion this year, which reflects some strengthening of the arrangements for management of significant business risks. Details of our conclusion for each of the criteria specified by the Code of Practice are set out in Appendix B.

Use of Resources Assessment

As part of the Audit Commission's ongoing CPA process, we have assessed how well the Authority manages and uses its financial resources covering financial reporting, financial management, financial standing, internal control and value for money. The results of the assessment we carried out in 2006 were included in the Audit Commission's Annual Audit and Inspection Letter published in March 2007. Overall the Authority achieved a level 3 score 'consistently above minimum requirements – performing well'. The detailed findings from the 2006 Use of Resources assessment are set out within our Use of Resources report issued in November 2006. The results of this review highlighted some areas where the authority could improve the effectiveness of its arrangements going forward. We will update the assessment as part of the current year's audit work, the results of which are expected to be published at the end of December 2007.

Data Quality work

As part of the Audit Commission's approach to the audit of performance information systems, we undertook a review of the overall management arrangements in place to secure data quality in 2006. The aim of this work is to determine whether proper corporate management arrangements for data quality are in place, and whether these are being applied in practice. This work contributes towards our 'use of resources conclusion'. We found strengths in a number of areas including the use of performance management data as well as the systems in place to collect, record and analyse data. There were identified areas for further development, such as the development of a data quality policy and setting of clear objectives. We also found that the support given to staff required enhancement. The detailed findings from the 2006 data quality review are set out within our Use of Resources report issued in January 2007. We have carried out further work in 2007 to inform our 'use of resources conclusion in respect of 2006/07 and will complete this review and report the more detailed results later this year.

Targeted work

In 2006/07 we completed an audit of the Council's Local Area Agreement, testing the controls in place to supply accurate and complete data on thirty nine of the eighty seven indicators. During this review we interviewed a wide range of Medway's partner organisations. We found that inadequate controls were in place around eight indicators and that a further eight had control weaknesses. We made individual recommendations on each indicator as appropriate which were directed at the Council to address, although close working relationships with third parties would be necessary to secure implementation. The detailed findings from the review are set out within our report issued in April 2007.

Statement on Internal Control

Local Authorities are required to produce a Statement on Internal Control (SIC) which is consistent with guidance issued by CIPFA / SOLACE. The SIC was included in the financial statements.

We reviewed the SIC to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Best Value Performance Plan

Our work on the 2006/7 Best Value Performance Plan (BVPP) concluded that the Best Value Plan was prepared in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice. As such we issued an unqualified report in September 2006.

Audit plans and fee update

Audit Plan 2006/07

We issued our Audit Plan for 2006/07 and presented it to Members in April 2006.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2006/07. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2006/07

We reported our fee proposals as part of the Audit Plan for 2006/07. Subsequent to our plan, the Audit Commission finalised the scope of work on data quality, which resulted in additional work and costs of £10,000. We will seek to offset additional costs where appropriate and report on actual fees at the conclusion of our audit.

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	2006/07 Fee proposal
Accounts	£190,000
Use of Resources	£65,000
Grant Claims	£75,000
Total	**£330,000**

In addition, we performed work (£3,710) which fell outside of the Code of Audit Practice relating to the audit of the Medway Tunnel expenditure statement.

Appendix A: Audit reports issued in relation to the 2006/07 audit year

The following audit reports have already been issued in relation to the 2006/07 audit year:

- Audit Service Plan 2006/7
- Report to those Charged with Governance 2006/7 (ISA260 audit report)
- Internal Controls Report 2006/7
- Audit opinion on the 2006/7 financial statements and conclusion on the Council's use of resources
- 2006 Use of Resources assessment report
- Best Value Performance Plan 2006/7 opinion
- Audit report on Local Area Agreements
- 2006 Data Quality report

Appendix B: Summary of unadjusted misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Impact on Income & Expenditure account deficit/(surplus)				
Audit Fee	246			Accrual 246
Payroll	445			Accrual 445
Month 12 Utilities Costs	300			Accrual >300
Sundry debtor provision	259			Sundry debtor provision 259
Social Services income provision	47			Collect provision 47
Unallocated Income		11	Sundry debtor provision 11	
Net effect	1,297	11	11	1,297
Impact on disclosure classification				
Amortisation of Government Grant	Costs of services 1,600	Statement of movement on general fund balance 1,600	Capital Financing Account 1,600	Government Grants Deferred Account 1,600

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr **£'000**	**Cr** **£'000**	**Dr** **£'000**	**Cr** **£'000**
Revenues and Benefits	Costs of Services 345	Trading Account Deficit 345	General Fund Reserves 345	Trading Account Reserve 345
HRA Investment Income	I&E Investment Income 37	HRA Income 37		
Unallocated Income			Debtors 48	Creditors 48

In addition we commented on the Dedicated Schools Grant which comprises two separate elements. There is a central element for a restricted range of services provided on an authority wide basis and the element for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. Medway overspent the central allocation for 2006/07 by £890,000. The overspend had been accounted for as a reduction in school reserves   We held the view that this overspend should have been accounted for against the general fund rather than against school reserves an the revised accounts have been adjusted to follow this correct treatment.

Appendix C: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources. The Code criteria and our conclusions are shown in the table below:

Code Criteria	Description	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate*

Code Criteria	Description	Use of Resources Conclusion
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

* This criterion was rated as inadequate in our 2005/06 conclusion

Appendix D: Summary of audit and accounting issues

No.	Issue	Recommendation	Management Response
Capital			
1	**Fixed Asset additions** The Authority has capitalised partial replacement of existing assets but does not have sufficient information in the asset register to make adjustments in respect of previously capitalised items such as a replacement boiler and the resurfacing of highways. In these instances the original capitalised and subsequently depreciated element has not been recognised and removed from the asset register before the new expenditure is capitalised. This may result in overstatement oft the asset value.	Where a fixed asset comprises two or more major components with different expected lives, each separately identifiable component should be accounted for separately for depreciation purposes.	This is a radical departure from the Council's current practice; however, officers will Investigate the feasibility of the recommendation during 2007/2008.
2	**Deferred Government Grants Account** Medway have not fully complied with the Statement of Recommended Practice when accounting for deferred government grants. When a government grant or any other contribution has been applied to the financing of capital expenditure on fixed assets, a balance should be established representing a deferred credit to be released to revenue to offset the depreciation charge to the service account Medway does not have accounting records matching fixed assets to grant funding. Instead an estimation technique has been used applying a 20 year amortisation rate across the entire account with a half year charge in the first year. The amortisation of the government	Records should be maintained for the deferred government grant account matched with the related assets. The government grant should then be released from the deferred government grants account in line with the basis of the depreciation charge on those grant funded assets.	Historic records do not provide sufficient detailed information to comply with this requirement with the degree of accuracy required by the SORP. Discussions will be had with the incoming auditors to see how this issue can be resolved with the minimum amount of bureaucracy.

No.	Issue	Recommendation	Management Response
	grants has been accounted for against the Central Government Grant line at the foot of the Income and Expenditure Account. This approach is only appropriate where the grant funded assets cannot be identified. The current approach results in a lack of consistency in the rate at which grant funded assets are depreciated and the rate of amortisation of grant is accounted for within the income and expenditure account. Additionally, the current treatment does not take into account instances whereby depreciation should not charged on assets under construction. We have estimated that the 2006/7 amortised government grant is overstated by £1.6m. Although this does not impact on the general fund balance, this would increase the reported deficit in the income and expenditure for the year. It would also misstate the balances on the deferred government grants account and capital financing account.		
3	**Developer Contributions** Where a developer agrees to contribute toward the cost of capital works, the authority should account for the contributions using a deferred credit method. Contributions are then released to the relevant service revenue account(s) over the life of the relevant asset to offset related charges for depreciation. Following discussion with officers, the accounts have been adjusted to follow this accounting treatment for developer contributions but going forward needs to have detailed records that support this approach with details of the assets financed by these contributions and the supporting amortisation linked to depreciation.	The Authority should maintain records of capital contributions and the related assets in order to calculate depreciation and amortisation correctly.	Detailed records are kept of developer contributions applied and unapplied. However, currently amortisation of the contribution applies in the year of application and is not linked to depreciation. This is a similar issue to the deferred government grants account and will be reviewed during 2007/2008.
4	**Unapplied Capital** The authority holds an account code (X4003) which records capital grant income received and the application of these funds which	The authority needs to do further work regarding the X4003 code to	Staffing problems within the capital accounting section have prevented an

No.	Issue	Recommendation	Management Response
	results in the balance representing unapplied capital grants. However, this account code has not been regularly monitored and reviewed during the year. Our testing of debtors identified an exception whereby expenditure had been applied under a section agreement prior to the income being received. The amount due is currently recorded as a debtor.	reconcile the balances and confirm the accounting treatment.	ongoing review of this account. None the less this is predominantly a year end process associated with capital financing. All movements on the account are identifiable and necessary funding adjustments made. A detailed reconciliation will be accomplished now the team is complete. It is unlikely that the S106 contribution will be recovered as the trigger on which this contribution was based was not reached. Procedures have been revised to ensure this does not occur in the future. However, negotiations are ongoing with the developer and it is hoped that an offer will be made in respect of development on an adjacent site.
5	**Gain and Loss on Sale of Fixed Assets** Our audit has found that the Authority has not been revaluing assets at the point of sale as is the expectation of the new Statement of Recommended Practice. As a result there is a larger balance than expected for gains and losses on disposals of assets within the income and expenditure statement. In addition, the authority has not currently disclosed the gains and losses on HRA fixed assets separately within the HRA.	The authority should revalue all assets prior to sale. Gains and losses on HRA fixed assets should be accounted for within the HRA statements.	All assets are now revalued at time of sale.

No.	Issue	Recommendation	Management Response
6	**Fixed Assets with nil net book value** There are no procedures in place to review assets with nil net book value to establish if they are still in use and if the expected life and valuation needs to be adjusted. The asset records identify approximately 1,200 separately identifiable fixed assets (excluding Council Dwellings) of which 568 are recorded as fully depreciated. 211 of these fully depreciated fixed assets still have remaining lives as per Logotech. This suggests that they still have a value to the Council and should be reviewed. Around 300 of these relate to small strips of land which have never been separately valued.	All assets held at nil value should be reviewed.	The majority of these are community or infrastructure assets inherited from the predecessor authorities i.e. strips of land with no perceived value. Officers will review assets to ascertain if any warrant revaluation.
7	**Council Dwelling Fixed Asset Register** Council dwellings are not recorded on the new fixed asset register (Logotech) and these are not held in a separate asset register elsewhere. This will make it more difficult to meet the changes set out in the 2007 SORP, including the requirement to operate a revaluation reserve.	Council dwellings should be held on a fixed asset register.	During 2007/2008 officers will investigate the feasibility of incorporating council dwellings within LOGOTECH either at detail or summary level
Other audit and accounting issues			
8	**Bad Debt Provisions** The Authority has bad debt provisions against four debtor balances namely; Social Services charges (Collect), Collection Fund, HRA and the Sales ledger control account. Our audit identified the following exceptions that indicate that the Authority's debt provision process is not sufficiently robust: • The debt provision process does not consider other classes of debt such as capital debtors to determine the authority's total provision against their total debt book. • The sales ledger control account provision does not specifically provide for any debts less than a year old,	The Authority should review the methodology behind their bad debt provisions to ensure that the level of debt provided against is prudent.	Procedures for assessing general bad debt provision will be reviewed during 2007/2008. The current policy on the Collect bad debt provision is to provide for 60% of the 'high risk' debt and, as the debt is not written off until the death of the debtor, it is maintained that the current policy is robust.

No.	Issue	Recommendation	Management Response
	despite the fact that some of these debts may be irrecoverable. • The sales ledger control account provision has a general provision element which is not calculated on a consistent basis. • Collect debtors that are considered irrecoverable are provided for at 60% rather than 100% as we would expect.		

Appendix E: Update on prior year financial and accounting controls recommendations

Issue	Risk	First reported	Open	Significant advance	Resolved
The administration process in place to monitor and apply section agreements is not adequate for the Council's needs.	M	2005	✓		
The accounting, monitoring and resolution of capital grants account code needs to be reviewed and controls and processes improved.	M	2005	✓		
Fixed asset additions recorded as current year additions despite relating to the prior period.	L	2006			✓
The Fixed Asset Register is not up to date and contains numerous errors.	M	2005		✓	
The Sundry debtor's provision methodology does not review all debts to establish the provision required.	L	2004	✓		
The social services bad debt provision calculation only provides against 60% of irrecoverable debts.	L	2006	✓		
Testing identified numerous old debtors within the sales ledger that had not been written off and the sales ledger contains numerous credit balances.	L	2004	✓		
Debit balances had been cleared from the purchase ledger without any written approval from an appropriate senior member of staff and an aged listing of all creditors set up outside the creditor system is not produced or utilised by finance function.	M	2006	✓		

The Council does not have a process in place whereby details of all leases held by the Council and Schools are maintained, monitored, updated and input into the financial statements at year end appropriately.	L	2005	✓		
Review of bank reconciliations are not being carried out promptly.	L	2006			✓
Annual school financial returns are journalled to the ledger without review or supporting documentation and the Council does not hold or request any invoices for devolved capital expenditure.	M	2005	✓		
Charges in the HRA cannot be substantiated as the Academy system feeds gross housing rent which includes service charges through to Integra.	M	2005	✓		
Four System administrators have complete access to the finance system. These users' actions are not subject to formal monitoring or checking. These users have the ability to access standing data, approve and make payments, access management information and remove the evidence from the management information.	M	2006	✓		

Appendix F: Future Developments

Accounting for revaluations	A revaluation reserve will be introduced in 2007/08, replacing the Fixed Asset Restatement Account. This reserve will be built up from individual balances for each asset, with movements in valuations having to be managed at an individual level. One of the key principles for the reserve will be that an individual asset should not have a negative revaluation balance, no matter how much the reserve might be in surplus overall. Under the current Local Government Statement of Recommended Practice (SORP), the Authority is not required to consider whether a downward valuation would take an asset's carrying amount below its depreciated historical cost. All impairments that are not derived from the clear consumption of economic benefits are written off to the Fixed Asset Restatement Account (FARA). When the revaluation reserve is introduced any impairment in value below depreciated historical cost will be a charge to Income and Expenditure, even if it were attributable to a general change in prices. As part of the procurement of the new asset management system, we recommend that the Authority ensures that the new system will meet the changes set out in the 2007 SORP, including the requirement to operate a revaluation reserve. This will include the need to be able to track the historic cost of an asset and the associated depreciation and also any changes in valuation and the related change in depreciation for that asset.

Transition to International Financial Reporting Standards (IFRS)	As part of the 2007 budget, HM Treasury confirmed that "In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice … from the first year of the CSR period [government] accounts will be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector." Government will be required to report under EU-endorsed IFRSs for the year ended 31 March 2009 (including the restatement of 2007/08 comparatives). This will include central government departments, NHS trusts, PCTs and NHS foundation trusts. Whilst the extension of these requirements to individual local authority accounts is dependent on the SORP process and may not take place until the year ending 31 March 2010, local government will be required to complete whole of government accounts returns on an IFRS basis for the year ending 31 March 2009. To enable management to control, monitor and deal with the impacts of transition to IFRS and to ensure you are able to provide the comparative information that is required in your IFRS accounts, the Authority is likely to need to be able to prepare an auditable IFRS opening balance sheet at 1 April 2008 and IFRS compliant financial information for all accounting periods thereafter, although how and when the new requirements will specifically apply to local authorities have yet to be confirmed by CIPFA.. As such the Authority's should consider undertaking an IFRS transition project as soon as possible. The impact of transition to IFRS is broad – and has ramifications throughout the business – it cannot be considered as simply a technical accounting change. The impact is not consistent from entity to entity and depends upon many variables. It is only on the basis of appropriate investigation and analysis that any entity can identify that impact and make informed decisions as to how it will deal with the transition to IFRS while managing the associated risks. Our extensive experience with IFRS transition projects indicates that the complications are in the detail and the complexity of applying new accounting standards is significantly impacted by an entity's business operations, organisational structure, management information systems and geographical spread.