



REPORT TO:	OVERVIEW & SCRUTINY COMMITTEE
DATE:	18 FEBRUARY 2010
REPORT OF THE:	CORPORATE DIRECTOR (s151) PAUL CRESSWELL
TITLE OF REPORT:	INTERNATIONAL FINANCIAL REPORTING STANDARDS
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 To inform Members of the current position of this council with regard to the transition to International Financial Reporting Standards (IFRS) and of the likely impact it will have on the Statement of Accounts.

2.0 RECOMMENDATION

- 2.1 It is recommended that Members note the contents of the report.

3.0 REASON FOR RECOMMENDATION

- 3.1 The introduction of IFRS is a major change in public sector accounting. Due to the nature and complexity of the conversion to IFRS adopting a structured approach to its implementation should ensure a smooth transition.

4.0 SIGNIFICANT RISKS

- 4.1 There are no significant risks associated with this report as it is for information only. However, failure to comply with the new statutory reporting requirements could mean a qualified audit opinion on the 2010/11 accounts and have an adverse effect on the reputation of the Council and the Use of Resources judgement.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 The annual financial statements for this Council and other local authorities are currently prepared using UK accounting standards (UK GAAP). The government have determined that the whole of the public sector will prepare its accounts using IFRS. Central government and the NHS will be reporting under IFRS in 2009/10 and local authorities from the next financial year 2010/11.

5.2 Although IFRS is to be effectively implemented in the 2010/11 financial year there will be a stepped transition to the production of the Council's Statement of Accounts on a solely IFRS basis. There are three key stages in this transition:

- Restate the opening balance sheet as at 1 April 2009 to comply with IFRS.
- Prepare the accounts for the 2009/10 financial year in accordance with UK GAAP and also restate these accounts to comply with IFRS, meaning that the 2009/10 financial statements will be prepared in both UK GAAP and IFRS formats.
- Prepare the 2010/11 financial statements on an IFRS basis only.

6.0 POLICY CONTEXT

6.1 The successful introduction of the IFRS accounting requirements will contribute to the aim of being a well run council and provide necessary evidence into the Use of Resources judgement process.

7.0 CONSULTATION

7.1 It is important that we engage with our external auditors throughout the transition period to establish any audit trail and expectations regarding the preliminary views on accounting treatment, materiality considerations, audit timetables and the preparing of working papers.

7.2 To assist a smoother transition advice will be sought from specialists in specific technical areas.

8.0 REPORT DETAILS

8.1 Annex A lists the key stages of the implementation of IFRS and provides an indication of what progress has been made by officers to date.

8.2 The Code of Practice on Local Authority Accounting in the United Kingdom for 2010/11 was published in late December 2009. Indications are that CIPFA will publish a practitioners guide for the new code in June 2010.

8.3 In the meantime an impact assessment has been carried out with the assistance of the Sector Technical Advisory Service and key officers have been identified to support the transition to IFRS.

8.4 The impact on financial systems will be minimal with no upgrades being required. There will however have to be some reclassification in certain areas of the chart of accounts to accommodate changes in the presentation of the financial statements.

8.5 Capital accounting software has been procured which when fully implemented will assist both Property Services and Finance in meeting the changes in the IFRS method of accounting for fixed assets.

8.6 All existing leases (where the Council is either the lessee or the lessor) will have to be reviewed, as there are slightly different definitions that will mean some leases will be defined as finance leases rather than operating leases and treated differently in the accounts.

8.7 IFRS introduces the concept of 'embedded lease arrangements'. Implementation could require the Council to recognise the leasing of assets held by contractors but

used solely for the Council's contracts. This could potentially have an impact for the Council because it would require a review of major contracts and partnerships.

- 8.8 Material components of assets should be accounted for separately where parts of the building have a different asset life, such as boilers and lifts. This requirement, however, will only apply as assets or components are acquired, replaced or revalued after 1 April 2010. This may lead to additional work for the Valuation Officer and more assets being held on the asset register.
- 8.9 Certain assets will require a different valuation method than used currently and some may need to be re-categorised. Two valuations may be needed for 2009/10, one for the accounts under UK GAAP and one for the restated valuation in the 2010/2011 accounts under IFRS.
- 8.10 Under IFRS a local authority will only need the power to influence another entity (rather than to actually exercise it) for it to be treated as part of the group. A full review of all related parties will need to be carried out to assess if group accounts are required. If they are, it would have a significant impact on the Council's closure of accounts process.
- 8.11 All benefits payable during employment will need to be accounted for in the period in which the employee has earned the benefit. All untaken holiday, time off in lieu and flexitime will need to be accrued for. Additional information will therefore need to be collected to present the accounts.
- 8.12 There are significant changes to the main statements and the new format will need to be explained to Members at an early stage prior to the submission of the Statement of Accounts for scrutiny. IFRS requires more disclosure notes than is currently the case and it is expected that this will result in a significant increase in the size of the Statement of Accounts.
- 8.13 Whilst some of the changes will give rise to a change in the net expenditure reported each year, CIPFA have stated any impact on Council Tax will be mitigated through statutory adjustments.
- 8.14 Members will be kept updated on the progress being made.

9.0 IMPLICATIONS

- 9.1 The following implications have been identified:
- a) Financial
None currently. It is the intention that the extra workload required from the project team and the cost of any external specialist advice will be kept within existing financial resources.
 - b) Legal
There is a legal requirement to produce accounts on an IFRS basis from the 2010/11 financial year onwards.
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
Not applicable.

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Background Papers:
LAAP Bulletin 80 (CIPFA, March 2009)

Background Papers are available for inspection at:
Finance Section

PLAN OF PROGRESS TO IFRS

Current Tasks	Progress Status
Identify key areas of impact	Completed <ul style="list-style-type: none"> • Impact assessment • Leases • Tangible assets • Employees benefits
Identify key staff	Completed <ul style="list-style-type: none"> • Corporate Director (s151) • Finance & Revenue Services Manager • Group Accountants • Valuation Officer • Legal Officer • Human Resources Officer
Staff Training on IFRS	On-going <ul style="list-style-type: none"> • Attendance at CIPFA workshops and briefings • Networking with practitioners of neighbouring and other local authorities
Identify and implement any systems or procedural changes	Completed <ul style="list-style-type: none"> • No significant changes to corporate FMS Almost complete <ul style="list-style-type: none"> • Implementation of new capital accounting software On-going <ul style="list-style-type: none"> • Recording of employee benefits • Lease arrangements
Identify and obtain the key information required to restate the 1 April 2009 balance sheet under IFRS	Completed <ul style="list-style-type: none"> • Employees benefits Almost complete <ul style="list-style-type: none"> • Leases On-going <ul style="list-style-type: none"> • Revaluation and reclassification of tangible assets
Prepare 2010/11 budget for IFRS status	Completed
Progress report to Overview and Scrutiny Committee	February 2010
Future Key Stages	Target Dates
Prepare full skeleton IFRS accounts with comparatives and agree with auditors	30/06/10
Restate 2009/10 accounts in parallel with the main 2009/10 accounts process including reconciliation between UK GAAP and IFRS	30/09/10
Submission of 2009/10 Whole of Government Accounts on IFRS basis	30/09/10
Preparation of 2010/11 Statement of Accounts on IFRS basis	01/04/11 to 30/06/11
External Audit of first set of IFRS Statement of Accounts	01/07/11 to 30/09/11