

Report of the Director of Resources

## **International Financial Reporting Standards (IFRS) Update**

### **Summary**

1. The purpose of this report is to update Members of the progress being made on implementing the statutory required changes in financial reporting from UK General Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS)
2. In accordance with the Local Authority Accounting Practice (LAAP) Bulletin 80 – Implementation of IFRS - Local Authorities are advised to discuss the implications of IFRS with those responsible for governance arrangements and update them throughout the implementation process.
3. Building on last years closure of accounts process, it is essential that a structured transition to IFRS is managed and controlled successfully in City of York Council; and that the A&G committee receive reports to enable them to gain assurance that the matter is being managed efficiently.

### **Background**

4. A report introducing the implementation of IFRS was presented to Members of A&G committee on 21 September 2009 and further updates will be available on a quarterly basis. The change in financial reporting to IFRS will be fully implemented in the 2010/11 Statement of Accounts, to be reported to A&G by 30 June 2011. The need to include comparative information for 2009/10 in the first IFRS-based Statement of Accounts means that the effective date of transition is at 1 April 2009 and the 2009/10 accounts will need to be restated in IFRS format.
5. Early planning and preparation are essential to ensuring a smooth conversion to IFRS. It has been agreed with the Audit Commission that the balance sheet (one of the core statements in the Statement of Accounts) for the 1 April 2009 will be restated, to commence the conversion process, by the beginning of March 2010.
6. In order to achieve this, the more involved “significant” areas of change for IFRS (as described in the report to A&G on 21 September 2009) are currently being reviewed and progress on these areas are detailed below. The significant changes are:
  - i. First time adoption
  - ii. Increased disclosure requirements
  - iii. Segmental reporting
  - iv. Private Finance Initiatives

- v. Leases
- vi. Assets – Infrastructure, Tangible, Intangible
- vii. Investment properties
- viii. Employee benefits
- ix. Group Accounts

7. The first 3 significant changes listed above do not affect the initial restatement of the 1 April 2009 balance sheet so priority has currently been given to the development of other areas. In addition the IFRS guidance notes are to be issued by CIPFA during December 2009 and this guidance will give clarity as to the specific requirements for segmental reporting, disclosure requirements and first time adoption.
8. The accounting treatment for Private Finance Initiatives has changed under UK GAAP for the Statement of Accounts 2009/10. These changes are compliant under IFRS. The required regulation control tests are being applied to the schools PFI to determine if the asset will be included on the balance sheet in future. Also in order to incorporate this change in accounting treatment the unitary charge currently made to the developer is being identified into capital, finance and service elements. By introducing this change in the Statement of Accounts 2009/10, this assist Local Authorities in the goal to achieve the required IFRS implementation.
9. Leases is an area that involves all directorates across the Council. Departments are being engaged from corporate finance through departmental finance teams. A proforma has been designed to collate the relevant information to assess the categorisation of a lease whether it is a finance lease or operating lease. Service contracts are also being looked at. In the past contracts did not form part of the lease definition however under the new IFRS regulations a wider scope definition is used to identify leases and more emphasis is being placed on service contracts and how assets are being used to deliver a service. The key to the collation of this data is collaborative working across the Council's directorates and to date a positive response has been received.
10. Assets and investment properties – Corporate finance are working in conjunction with property services to verify that plant, property and equipment values are correct for IFRS purpose, determine whether assets are categorised correctly, to ensure that the accounting treatment of revaluations and impairment losses are revised and that surplus assets are reclassified in the balance sheet from fixed assets to current assets as asset available for sale.
11. Employee benefits, along with leases is an area that involves all directorates across the Council. Corporate finance has met with the Audit Commission and agreed a sampling approach to collect the required data from all departments. It is necessary to collate the number of annual leave days that have not been taken in a financial year and apply this to the salary bill to quantify a monetary value of untaken leave days that can be included in the accounts. This data is also required for flexi time. At this stage consultation with HR has occurred and the process will now be cascaded through departments.
12. Group accounts are reviewed every year under UK GAAP to identify those organisations that City of York Council has an interest in. For the 09/10 Statement of Accounts Yorwaste and Veritau will both be grouped for the first time. Under IFRS, the regulations as to

grouping an organisation have changed and therefore there is now a wider scope where organisations will be required to be grouped when they did not have to be before. Corporate finance is currently working in collaboration with North Yorkshire County Council as to the procedures and processes they have in place for grouping Yorwaste and the future IFRS requirements.

### **Consultation**

13. The report shows that over the past 3 months the key to the preparation of IFRS is collaborative working with all departments across the authority, particularly the engagement with property services and HR. Corporate Finance are presenting to all finance staff across the authority in mid December to ensure that they are aware and understand the change in accounting regulation to IFRS. Corporate finance are also consulting with other Local Authorities and attended a discussion forum in November with other North Yorkshire Councils which is to meet on a regular basis going forwards.

### **Options**

14. It is a statutory requirement to introduce IFRS into local authority accounts for the financial year 2010/11. No alternative options are available.

### **Corporate Priorities**

15. The Authority will need to comply with IFRS as financial reporting is one of the measures in the Use of Resources score forming part of the Comprehensive Area Assessment

### **Implications**

16. The implications are
  - Financial - there are no financial implications to this report as the project work is being undertaken by existing resources in corporate finance and also across departments.
  - Human Resources - there are no human resource implications to this report
  - Equalities - there are no equality implications to this report
  - Legal - there are no legal implications to this report
  - Crime and Disorder - there are no crime and disorder implications to this report
  - Information Technology - there are no information technology implications to this report as only current IT available is being utilised.
  - Property –are no property implications to this report
  - Other - there are no other implications to this report

### **Risk Management**

17. There is a risk to the authority if the Statement of Accounts 2010/11 are not in accordance with IFRS requirements. It is a statutory obligation, with ultimate government action if there is none compliance.

### **Recommendations**

18. That Audit & Governance Committee note the positive progress contained in this report and recognise the continuing work being undertaken for a smooth transition to IFRS.
19. Reason: That those responsible for governance arrangements are updated on a regular basis to ensure that the implementation of IFRS is proceeding in a timely manner for 30 June 2011 implementation.

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approved

**Specialist Implications Officer(s)** None

**Wards Affected:** *List wards or tick box to indicate all* **All**

**For further information please contact the author of this report**

**Background Working Papers**

IFRS information produced by CIPFA