

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. This is the third report, which updates those responsible for governance arrangements of the transition to IFRS implementation to provide assurance that the process is being efficiently managed.

Background

3. The change in financial reporting to IFRS will be fully implemented in the 2010/11 Statement of Accounts, to be reported to Audit & Governance Committee (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.
4. Originally it had been suggested that the Audit Commission would review the restated balance sheet (one of the core statements in the Statement of Accounts) for the 1 April 2009 in March 2010. However, there has been no formal guidance issued by the Audit Commission as yet and therefore it is assumed that the restated 1 April 2009 Balance Sheet and the restated 2009/10 Statement of Accounts will be audited along with the 2010/11 Statement of Accounts, in accordance with the regular timetable in July/August 2011. In the NHS (where the conversion to IFRS is occurring a year earlier than in Local Government) the equivalent restated accounts to 2009/10 (and 1 April 2009 balance Sheet) would have been reviewed by the Audit Commission in the 4th quarter of 2010. It is still a possibility that this could occur in Local Government but as yet nothing has been confirmed.
5. In the report presented to A&G on 21 December 2010, the report detailed the significant areas of change for the implementation of IFRS and prioritised the areas that affected the restatement of the 1 April 2009 balance Sheet as well as 2009/10 Statement of Accounts - Private Finance Initiatives (PFI), Group Accounts, Leases, Assets & Investment properties, Employee benefits and Group Accounts. This report sets out the progress that has been made in these specific areas.

6. The accounting treatment for Private Finance Initiatives has changed under UK GAAP for the Statement of Accounts 2009/10. Therefore, these changes will be completed and included in the Statement of Accounts 2009/10 when presented to A&G on 29 June 2010. Additional changes that will also occur in the 2009/10 Statement of Accounts are the requirements for the changes to the Collection Fund and the inclusion of Group Accounts for the first time for Yorwaste (an associate) and Veritau (Internal Audit – a subsidiary).
7. Leases – information has been collated across all Directorates in relation to current lease and service contract arrangements. It is necessary to assess under new IFRS regulation whether agreements should be classed as finance leases, operating leases or whether they should remain as service contracts. Corporate Finance are currently evaluating these returns and if it is found that current agreements have changed to a finance leases then this will lead to a change in accounting treatment and further information to be received from Directorates. This process is time consuming due to the number of contracts that need to be assessed. The Audit Commission has been consulted and agreed that the approach being taken is appropriate. The key to the collation of this data has been collaborative working across the council's directorates.
8. Assets and investment properties – the valuers in Property Services have attended a training day organised by CIPFA to ensure that they understand the changes in valuations required for the Statement of Accounts 2010/11. The new IFRS regulation requires Property Services to consider valuation by fair value, to value assets in component parts if material and recognise the differences in the categorisation of assets. The changes in relation to valuation / categorisation of assets commenced from 1 April 2010, these changes are not retrospective as for other changes under IFRS and Property Services have already taken on board the requirements for their valuations in 2010/11.
9. The collection of data from directorates in relation to the IFRS requirements for employee benefits is progressing well. It is necessary to collate a sample of 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 process is reliant on individuals across the authority completing the required proforma, individuals are currently being chased up for a reply. This process is slightly complicated due to the leave year of each individual being different and the teachers leave year running from September. Both these factors have been clarified and the process is in place to obtain the required data.
10. To date only the “significant” areas of IFRS changes to the Statement of Accounts have been reported to members. In future at the July 2010 meeting, a more detailed timetable will inform members of other aspects of change. The timescale set by this authority to have a completed restated Statement of Accounts 2009/10 is by 31 December 2010; this will assist with the smooth transition of the Statement of Accounts 2010/11.

Consultation

11. The report shows that collaborative working with all departments across the authority is positive in assisting the progress in attaining the changes required by IFRS.

Options

12. 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

13. The council 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

14. 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 currently 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

15. 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

16. That Audit & Governance Committee note the progress contained in this report and recognise the continuing work being undertaken for a smooth transition to IFRS.

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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Report approved ✓ Date 13.4.10

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

Supporting documentation for leasing / employee benefits- proformas, Directorate information, accounting analysis

CIPFA Training course information for property valuations