

Report of the Director of Customer Business and Support Services

International Financial Reporting Standards (IFRS) Update

Summary

1. The purpose of this report is to continue the update to 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 fifth report 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 fourth report to Audit & Governance Committee on 28 July 2010 incorporated the IFRS overview project plan. The three key dates included in the project plan are (i) 30 September 2010: Obtain information required and restate 1 April 2009 balance sheet (ii) 31 December 2010: Identify information required and restate balance sheet for 09/10 accounts (iii) 30 June 2011: Produce 2010/11 accounts on IFRS basis.
4. The information required to restate the 1 April 2009 balance sheet focuses on 5 areas - the collection fund, the private finance initiative (PFI), group accounts, leases and employee benefits. In accordance with the Statement of Recommended Practice 2009 regulations the requirements for the conversion of the collection fund and PFI to be compatible with IFRS have been included in the Statement of Accounts 2009/10, along with the completed group accounts statements. The approval by this committee of the final audited accounts 2009/10 is included as another item on the agenda.
5. Work continues in the area of leasing and employee benefits. The information for leases required to convert to IFRS requires all service level agreements across the Council to be examined and reclassified as operating leases, finance leases or remain as service level agreements. The collation of this data is well progressed and the completion of the analysis and conversion to IFRS accounting treatment will be completed by 31 October 2010. The employee benefits information is a collation of data across the authority to identify average untaken leave per person. This is a sample exercise and currently information is awaited from departments. The accounting treatment will be complete by 31 October 2010.
6. With the completion of the change in accounting treatment for PFI, collection fund and the group account statements, more than 75% of the work has been completed to progress towards the restatement of the 1 April 2009 Balance under IFRS regulations. Leasing and

employee benefit information will be completed for the final conversion of 1 April 2009 balance sheet by 31 October 2010. The slight delay in comparison to the project plan of restating the 1 April 2009 balance sheet does not affect the continuation of work in other areas and therefore, the restatement of the 2009/10 accounts is still on target for 31 December 2010.

7. In addition to the leasing and employee benefit changes required for the conversion of the 2009/10 statement of accounts, areas which also affect finance departments across the Council include segmental reporting, capital grants / contribution and capital grants unapplied. Two training sessions have been arranged for the beginning of October and November 2010 to ensure that all finance departments are aware of the IFRS changes that are occurring that will affect their areas of work. They will contribute and understand the changes required for the conversion of the accounts 2009/10 and therefore be in a strong position to acknowledge what is required of them for the final statement of Accounts 2010/11.
8. Two other significant areas of change are the structure of the Statement of Accounts and accounting for the Council's fixed assets. The Statement of Accounts 2010/11 are likely to double in size with regards to the increase in reporting requirements. This includes the change in the structure of the "core" statements in the accounts but is mainly attributable to the requirement of IFRS to provide more detailed disclosure notes. This is based on the experience in the private sector, which went live with IFRS in 2005.
9. Fixed assets under IFRS are to be re-categorised in line with international reporting requirements and valuations undertaken by professional valuers within Property Services now need to consider the different components of assets. Components of an asset are defined by their useful economic life and the rate in which they depreciate. An example of an asset formed into components in a building may be that the land is 25%, the structure of the building is 35%, the roof is 25% and the services are 15%. The valuer now needs to value all these areas and consider the different asset lives. Local Authority Accounting Panel Bulletin 86 – Componentisation of Property, Plant & equipment under 2010/11 IFRS-based code - was issued in June to provide direction as to the new procedure to be adopted. Fixed assets are valued on a five-year basis and therefore all assets will be converted to IFRS regulation by 2014/15.
10. The council's external auditors – Audit Commission – are involved in the transition to IFRS and are on board with the processes that are currently being undertaken. Early in 2011, an examination of the fixed asset register will be undertaken to verify that all conditions and requirements are being well progressed. Discussion occurs with them on a regular basis as and when specific issues come to light. It is important to update the Audit Commission and have sharing of information so provide assurance that the Statement of Accounts 2010/11 will be completed on time.
11. Updates to members will continue on a quarterly basis and will continue to be monitored against the IFRS overview project plan.

Consultation

12. 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

13. 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

14. The Authority will need to comply with IFRS as financial reporting contributes to all areas of the corporate strategy.

Implications

15. The implications are
- Financial - there are currently 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

16. 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

17. That Audit & Governance Committee note the progress contained in this report and recognise the continuing work being undertaken for a smooth transition to IFRS.
18. 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 21.09.10

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 collection fund, PFI, group accounts, leasing, employee benefits, property plant & equipment, proformas, Directorate information, accounting analysis

CIPFA training course information