

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 to update Members on the progress being made to implement the statutory required changes in financial reporting from UK General Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS)
2. This sixth and penultimate update report informs those responsible for governance arrangements of the transition to IFRS implementation and provides assurance that the process is being efficiently managed.

### **Background**

3. Progress is being maintained to convert 1 April 2009 Balance sheet and 2009/10 Statement of Accounts from UK GAAP to IFRS and the IFRS overview project plan, presented to Members in July 2010, continues to be used to monitor progress. 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 most significant date is the production of the 2010/11 accounts on an IFRS basis by 30 June 2011. This is a statutory requirement and will be met. Since the report to Members in September 2010, some of the other dates within the project plan timescale have slipped as a result of reprioritisation of resources to address other commitments, including the analysis of the Comprehensive Spending Review. As a result of this reprioritisation, work on the transition work to IFRS has been rescheduled, but with an express intent to ensure that all statutory deadlines will still be achieved.
5. The collation of information to restate the 1 April 2009 balance sheet is ongoing and has been combined with the exercise required to restate the 2009/10 Accounts. This change in approach has extended the timescale in the project plan to convert the accounting treatment from UK GAAP to IFRS to the end of January 2011. The statutory date of 30 June 2011 for 2010/11 Statement of Accounts to IFRS remains unchanged.
6. A reminder of the information required to restate the 1 April 2009 balance sheet and 2009/10 Accounts (originally included in the first update to Members in September 2009) includes the areas of Leasing, employee benefits, fixed asset register, group accounts, grants and contributions, segmental reporting, provisions and the change in the format of the core statements. Work has commenced in all areas and good progress is being made with Directorates across the Council.

7. Directorate accountants have engaged positively with the additional workload requirements and have assisted in the collation of leasing and employee benefit information. Corporate Finance continues to work well as a team and have recently sent out to Directorates the required formats for collating the grant and segmental reporting information. Directorates are currently identifying conditions on grants / contributions for the change in accounting requirements and are actively reconciling the information required for segmental reporting. Segmental reporting is the reconciliation between budget monitoring information provided to management / Members on a quarterly basis and the Statement of Accounts “Net Cost of Services” information included in the Comprehensive Income and Expenditure Account. It also includes the requirement that the information is provided on a subjective basis as well as by portfolio directorate.
8. In addition to identifying changes in accounting treatment and collating required data, Corporate Finance have also produced the revised skeleton core statements for the new IFRS format Statement of Accounts. The table below shows how the core statements have changed from 2009/10 “Old Name” to 2010/11 “IFRS Code of Practice” for Local Authorities. The “IFRS Name” is that described in regulation but not used in Local Authority accounts:

<b>Order</b>	<b>Old Name</b>	<b>IFRS Name</b>	<b>IFRS Code of practice</b>
1	SMOGFB	Statement of Changes in Equity	Movement in Reserves Statement
2	Income & Expenditure Account + STRGL	Statement of Comprehensive Income	Comprehensive Income & Expenditure Statement
3	Balance Sheet	Statement of Financial position	Balance Sheet
4	Cash Flow Statement	Cash Flow Statement	Cash Flow Statement
5	Notes to the Accounts	Notes to the Accounts	Notes to the Accounts

9. An example of the revised statements that will be included in the 2010/11 Statement of Accounts is shown in annex A to C. The figures included in the examples are taken from the Statement of Accounts 2008/09 and 2009/10, at this stage, without the required accounting changes under IFRS. One exception to this is that the Government Grants / Developers Contribution Deferred Accounts’ have been transferred to the Capital Adjustment Account. This is to give Members an understanding of the revised Core Statements that will be produced at year end.
10. The examples in Annex A to C highlight the increased detail that will be provided in the 2010/11 Statement of Accounts. (i) Annex A is the Comprehensive Income & Expenditure Statement. The main change is the combination of the old Income & Expenditure Account combined with the old Statement of Total Recognised Gains and Losses. It also shows the increased Income and expenditure comparison detail in the Comprehensive Income and Expenditure Statement. (ii) Annex B is the Movement in Reserves Statement, which bears little resemblance to any of the previous statements produced under UK GAAP. It holds the information previously supplied in the Statement of Movement in the General Fund Balance and also provides a detailed breakdown of the movement in reserves seen on the face of the Balance Sheet. (iii) Annex C is the Balance Sheet where 3 balance sheets are to be

produced in 2010/11 - a comparison of the changes in the accounts for 2008/09, 2009/10 and 2010/11. The reserves information is now split between useable and non-useable reserves for increased understanding of the user. (iv) The Cash flow Statement has not been illustrated here, as the appearance is similar under UK GAAP and IFRS.

11. The process to collate this revised information from all Directorates across the Council at year end has been developed and the required proforma formats for this data collation have been created.
12. The other main area where progress continues is the Fixed Asset Register. There are 3 main areas for consideration (i) re-categorisation of assets to definitions of assets under IFRS (ii) identification of different components of assets, (iii) the change in the accounting treatment of the Fixed Asset Register. Work is progressing in all areas with Corporate Finance working with Property Services and Directorates. The change in the accounting treatment of the Fixed Asset Register is proving complicated to administer on an excel spreadsheet. In the New Year a tender exercise will be undertaken to review asset register systems available on the market to see if it is viable and will be value for money. If a new asset register system is purchased this will be utilised for 2011/12 Statement of Accounts and not the current conversion of UK GAAP to IFRS. This is to ensure that the accounting treatment change is fully understood using the council's current process.
13. The council's external auditors – Audit Commission – are involved in the transition to IFRS and are being kept fully aware of the processes that are currently being undertaking. Early in 2011, a formal meeting will take place with the Audit Commission to update them on all progress to date. Currently, discussion occurs with the Audit Commission 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 to provide assurance that the Statement of Accounts 2010/11 will be completed on time.
14. Updates to members will continue on a quarterly basis and will continue to be monitored against the IFRS overview project plan

#### **Consultation**

15. The report shows that collaborative working with all Directorates across the authority is positive in assisting the progress in attaining the changes required by IFRS. This sixth report also shows that Audit & Governance Members are being regularly updated.

#### **Options**

16. 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**

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

#### **Implications**

18. The implications are
  - Financial – currently there are no financial implications to this report as the majority of the project work is being undertaken by existing resources in corporate finance and also across Directorates. However, in the New Year, potentially an asset register system may be purchased to support the change in accounting treatment to IFRS.
  - 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**

19. 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 non-compliance.

### **Recommendations**

20. That Audit & Governance Committee note the progress contained in this report and recognise the continuing work being undertaken for a smooth transition to IFRS.
21. 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.

### **Contact Details**

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Report approved  Date

**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, property plant & equipment, segmental reporting proformas, grant / contribution proformas, skeleton accounts documents, Directorate information, accounting analysis CIPFA training course information

## Annex A

## Comprehensive Income &amp; Expenditure Account

2009/10			Note	2010/11		
Gross Exp. £000's	Income £000's	Net Exp. £000's		Gross Exp. £000's	Income £000's	Net Exp. £000's
30,359	(21,732)	8,627	(3)	-	-	-
52,295	(14,797)	37,498		-	-	-
191,616	(158,452)	33,164	(4)	-	-	-
22,981	(16,072)	6,909		-	-	-
29,003	(29,779)	(776)		-	-	-
52,774	(49,469)	3,305		-	-	-
60,821	(16,786)	44,035		-	-	-
304	-	304		-	-	-
4,204	(14)	4,190		-	-	-
868	(21)	847		-	-	-
466	(1,265)	(799)	(5)	-	-	-
<u>445,691</u>	<u>(308,387)</u>	<u>137,304</u>		<u>-</u>	<u>-</u>	<u>-</u>
2,409	(2,215)	194		-	-	-
16,879	(1,454)	15,425		-	-	-
-	(123,686)	(123,686)	(11)	-	-	-
<u>464,979</u>	<u>(435,742)</u>	<u>29,237</u>		<u>-</u>	<u>-</u>	<u>-</u>
		(31,467)				-
		-				-
		32,964	(10)			-
		<u>1,497</u>				<u>-</u>
		<u>30,734</u>				<u>-</u>

## Movement In Reserves Statement

Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Balance at 31 March 2009</b>	<b>(15,663)</b>	<b>(16,198)</b>	<b>(7,514)</b>	<b>(1,475)</b>	-	<b>(40,850)</b>	<b>(519,903)</b>	<b>(560,753)</b>
Surplus /(Deficit) on Provision of Services	28,272	-	965	-	-	29,237	-	29,237
Other Comprehensive Income and Expenditure movement	-	-	-	-	-	-	1,497	1,497
<b>Total Comprehensive Expenditure and Income</b>	<b>28,272</b>	<b>-</b>	<b>965</b>	<b>-</b>	<b>-</b>	<b>29,237</b>	<b>1,497</b>	<b>30,734</b>
Adjustments between accounting basis & funding basis under regulations	(24,588)	-	(2,639)	-	(154)	(27,381)	27,381	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>3,684</b>	<b>-</b>	<b>(1,674)</b>	<b>-</b>	<b>(154)</b>	<b>1,856</b>	<b>28,878</b>	<b>30,734</b>
Transfers to/from Earmarked Reserves	(1,747)	1,747	308	(308)	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>1,937</b>	<b>1,747</b>	<b>(1,366)</b>	<b>(308)</b>	<b>(154)</b>	<b>1,856</b>	<b>28,878</b>	<b>30,734</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>(13,726)</b>	<b>(14,451)</b>	<b>(8,880)</b>	<b>(1,783)</b>	<b>(154)</b>	<b>(38,994)</b>	<b>(491,025)</b>	<b>(530,019)</b>
<b>Balance at 31 March 2010</b>	<b>(13,726)</b>	<b>(14,451)</b>	<b>(8,880)</b>	<b>(1,783)</b>	<b>(154)</b>	<b>(38,994)</b>	<b>(491,025)</b>	<b>(530,019)</b>
Surplus /(Deficit) on Provision of Services	-	-	-	-	-	-	-	-
Other Comprehensive Income and Expenditure movement	-	-	-	-	-	-	-	-
<b>Total Comprehensive Expenditure and Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Adjustments between accounting basis & funding basis under regulations	-	-	-	-	-	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Transfers to/from Earmarked Reserves	-	-	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>(13,726)</b>	<b>(14,451)</b>	<b>(8,880)</b>	<b>(1,783)</b>	<b>(154)</b>	<b>(38,994)</b>	<b>(491,025)</b>	<b>(530,019)</b>

## Balance Sheet

31 March 2009 £000's	31 March 2010 £000's	Note	31 March 2011 £000's      £000's	
			<b>LONG-TERM ASSETS</b>	
712,996	740,745	(20)		740,745
65,964	67,265			67,265
3,266	2,214	(19)		2,214
13,528	11,513			11,513
5,215	1,215	(22)		-
21,560	3,587	(23)		3,587
<u>822,529</u>	<u>826,539</u>			<u>825,324</u>
			<b>LONG - TERM ASSETS</b>	
			<b>CURRENT ASSETS</b>	
27,534	26,107	(9)	-	-
536	495		-	-
20	12		-	-
23,378	26,990	(24)	-	-
59	59		-	-
8,841	9,690		-	-
<u>60,368</u>	<u>63,353</u>		-	-
			<b>CURRENT LIABILITIES</b>	
(5,556)	(8,676)	(25)	-	-
-	-	(25)	-	-
(35,328)	(36,973)		-	-
(256)	(1,171)	(26)	-	-
19,228	16,533		-	-
<u>841,757</u>	<u>843,072</u>			
			<b>NET CURRENT ASSETS</b>	
				<u>-</u>
			<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	
				<u>825,324</u>
			<b>LONG TERM LIABILITIES</b>	
(96,943)	(108,147)	(25)	-	-
(3,437)	(2,498)	(27)	(2,498)	-
(27,046)	(6,913)	(29)	(6,913)	-
(2,581)	(5,476)	(30)	-	-
(55)	(41)	(31)	-	-
(150,942)	(189,978)	(10)	(189,978)	-
<u>(281,004)</u>	<u>(313,053)</u>			<u>(199,389)</u>
<u>560,753</u>	<u>530,019</u>			<u>625,935</u>
			<b>TOTAL ASSETS LESS LIABILITIES</b>	
				<u>625,935</u>
			<b>RESERVES</b>	
			<u>Usable Reserves</u>	
-	-			-
-	154	(35)		154
15,663	13,726			13,726
7,514	8,880			8,880
-	-	(30)		-
17,673	16,234	(37)		16,234
<u>40,850</u>	<u>38,994</u>			<u>38,994</u>
			<u>Unusable Reserves</u>	
25,760	56,031	(32)		56,031
647,067	625,392	(33)		625,392
(2,343)	(2,198)	(34)		(2,198)
(150,942)	(189,978)	(10)		(189,978)
62	803	(36)		803
299	975			-
-	-			-
<u>519,903</u>	<u>491,025</u>			<u>490,050</u>
<u>560,753</u>	<u>530,019</u>			<u>529,044</u>
			<b>TOTAL RESERVES</b>	

Signed .....  
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Dated .....