

GOVERNANCE COMMITTEE MEETING: 27TH SEPTEMBER 2010

**SUBJECT: INTERNATIONAL FINANCIAL REPORTING STANDARDS –
PROGRESS REPORT**

REPORT OF THE FINANCE OFFICER

1.0 Purpose of the Report

- 1.1 To provide Members of the Committee with an update on the Authority's progress made towards compliance with International Financial Reporting Standards (IFRS) since the initial report was made to this Committee on 22nd March 2010.
- 1.2 To set out the updated project outline (Appendix 1).
- 1.3 To identify the necessary actions and plans established to enable the requirements to be met.

2.0 Reason for the Decision

- 2.1 The Committee is recommended to note the report and the progress made to date.

3.0 Progress made to date

3.1 Budget 2010/2011

There are no budgetary implications as a result of technical accounting changes brought about by the convergence to IFRS for 2010/2011. All accounting changes that could impact upon the Authority's budget and level of Council Tax are to be mitigated by government legislation.

3.2 Timetable for Compliance

The workload and timetable for IFRS has been divided into three manageable phases reflecting the three financial years IFRS will impact upon before becoming effective:

- Phase 1 – Restatement of the 2008/2009 transition balance sheet.
- Phase 2 – Full restatement of the 2009/2010 accounts.
- Phase 3 – Production of IFRS compliant accounts for 2010/2011.

A detailed plan of actions and key tasks was drawn up to complete the work required in Phase 1, which was completed by the 31st July 2010.

A detailed timetable for Phase 2 is about to be finalised, with phase 3 being managed through the final accounts closure timetable for 2010/2011.

3.3 Phase 1 – Restatement of the 2008/2009 transition balance sheet.

The restatement of the 2008/2009 transition balance sheet is now complete. The key elements included:

- Private Finance Initiative (PFI).
- Council Tax
- Employee Benefits
- Equipment Leases
- Property Lease
- Government Grants

3.3.1 Private Finance Initiative (PFI)

PriceWaterhouseCoopers (PWC) was engaged to deliver the required accounting changes in respect of PFI due to its highly complex technical nature. This area of work is now complete and a report has been issued which provides the accounting entries in respect of the PFI scheme for the remaining life of the PFI asset.

Northumberland Fire and Rescue Authority have provided the required accounting information in respect of the Authority's proportion of the NEFRA scheme.

Both the 2008/2009 and the 2009/2010 adjustments have been completed in respect of the Authority's PFI schemes.

3.3.2 Council Tax

The 2008/2009 and 2009/2010 adjustments in respect of Council Tax have now been completed and reported in the Statement of accounts 2009/2010 as appropriate.

3.3.3 Employee Benefits

The required adjustments have been made to the 2008/2009 restated balance sheet in respect of the IFRS requirements in relation to employee benefits. Also, the required data has been captured to allow the restatement of the 2009/2010 accounts included in phase 2.

3.3.4 Leases

The vehicle and equipment leases held by the Authority have been reviewed by the Council's leasing advisers to ensure that they all comply with IFRS requirements. Several leases have been reclassified from operating leases to finance leases. The 2008/2009 balance sheet has been amended to reflect this change.

3.3.5 Property Leases

All property leases have now been reviewed under IFRS criteria. One lease currently treated as an operating lease has been reclassified as a finance lease, the 2008/2009 balance sheet has been amended to reflect this change.

3.3.6 Government Grants

The 2008/2009 balance sheet has been restated to reflect the accounting changes in respect of government grants.

3.4 **Phase 2 – Full restatement of the 2009/2010 accounts.**

A detailed timetable is in place to restate the 2009/2010 accounts into an IFRS format. Most of the data required to do this was captured as part of the 2009/2010 final accounts process. Embedding IFRS into the final accounts closure process at an early stage will ensure the timely and accurate provision of information in the future.

The timescale for restating the 2009/2010 statement of accounts is set out in Appendix 1.

The main area of concern for this stage is that final guidance on the format of the 2009/2010 IFRS accounts is yet to be released by CIPFA, and although it is envisaged that this will be made available prior to Christmas, any delay would result in a delay to the timetable set out in Appendix 1 to this report.

3.5 **Phase 3 – Production of IFRS compliant accounts for 2010/2011.**

The final stage of the convergence process will see production of the 2010/2011 statement of accounts under IFRS. A detailed timetable to achieve this stage of the process will be prepared in December 2010.

During this stage it is intended to provide detailed training for relevant members and officers on the specific requirements of IFRS to enable appropriate scrutiny of the revised statement of accounts for 2010/2011 which will be presented to this Committee at its meeting on 30th June 2011.

4.0 General Issues

- 4.1 A project team has been established led by Financial Management Services. Relevant officers from across the Authority have responded well to requests for information and co-operation has been excellent.
- 4.2 The external auditor (Audit Commission) has been consulted throughout the process and to date their comments have been positive and helpful.

5.0 Conclusions

- 5.1 Progress to date has been good and within the detailed timetable set for Stage 1 of the process. No deviations from the timetable are expected at this time.
- 5.2 Regular progress reports will continue to be provided to members of this committee.
- 5.3 Awareness and specific training will be given to all relevant staff and members as part of the final stage of the project.

6.0 Recommendation

- 6.1 The Committee is recommended to note the report and the project outline set out in Appendix 1.

7.0 Background Papers

Audit and Governance Committee – IFRS report 22nd March 2010
Statement of Recommended Practice 2009 (SORP2009)
Draft IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom
Local Authority Accounting Panel (LAAP) Bulletin 81 – Implementation of IFRS