

**AUDIT AND GOVERNANCE COMMITTEE**

**30 September 2010**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) –  
PROGRESS REPORT**

**Report of the Director of Financial Resources**

**1. Purpose of the Report**

- 1.1 To provide Members with an update on the Council's progress towards compliance with International Financial Reporting Standards (IFRS) since the last report to this Committee on 26<sup>th</sup> March 2010.
- 1.2 To set out the updated project outline (Appendix 1).

**2. Reason for the Decision**

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

**3. Progress made to date**

**3.1 Budget 2010/2011**

There were 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 Council's budget and level of Council Tax are neutralised 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 the Council before becoming effective:

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

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, which will be reported to Committee once finalised.

### **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
- National Non Domestic Rates (NNDR)
- Employee Benefits
- Equipment Leases
- Property Leases
- Government Grants

#### **3.3.1 Private Finance Initiative (PFI)**

PriceWaterhouseCoopers (PWC) was engaged to deliver the required accounting adjustments in respect of PFI due to its highly complex technical nature. This area of work is now complete and a report has been produced which provides the agreed PFI model along with the accounting entries in respect of the PFI scheme for the remaining life of the Councils two PFI assets.

The 2008/2009 accounting adjustments have been completed in respect of the Council's PFI schemes.

#### **3.3.2 Council Tax**

The 2008/2009 accounting adjustments in respect of Council Tax have now been completed.

#### **3.3.3 NNDR**

The 2008/2009 accounting adjustments in respect of NNDR have now been completed.

#### **3.3.4 Employee Benefits**

The required accounting adjustments have been made to the 2008/2009 restated balance sheet in respect of the IFRS requirements in relation to employee benefits.

### 3.3.5 Leases

The vehicle and equipment leases held by the Council 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.

### 3.3.6 Property Leases

All property leases have now been reviewed under IFRS criteria and limited specialist advice has been used in a number of complex cases to review the proposed accounting treatment to be adopted. Several leases currently treated as operating leases have been reclassified as finance leases, the 2008/2009 balance sheet has been amended to reflect these changes.

### 3.3.7 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 for future years.

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

The main area of concern is that final guidance on the format of the 2009/2010 IFRS accounts has yet to be released by CIPFA, and it is envisaged that the details will not be made generally available until just prior to Christmas. Any delay would result in a delay to the timetable identified by officers in Appendix 1.

## 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 which must show and be compared with the previous year's accounts in the same format. A detailed timetable to achieve this final stage of the process will be prepared in December 2010.

During this stage it is intended to provide detailed training for both members and officers on the specific requirements of IFRS to enable

appropriate scrutiny of the revised Statement of Accounts to be presented to this Committee at its meeting on 30<sup>th</sup> June 2011.

#### **4. General Issues**

- 4.1 A project team has been established led by Financial Management Services. Relevant officers from across the Council 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 very positive and helpful.

#### **5. 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 anticipated 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. Recommendation**

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

#### **7. Background Papers**

Audit and Governance Committee – IFRS report 26<sup>th</sup> 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