

AUDIT COMMITTEE – 20 JANUARY 2010

INTERNATIONAL FINANCIAL REPORTING STANDARDS - UPDATE

Report by the Assistant Chief Executive & Chief Finance Officer

Introduction

1. From 2010/11, local authorities' accounts are required to be prepared using International Financial Reporting Standards (IFRS). This is part of a wider public sector move to comply with international accounting standards.
2. A report was presented to this Committee in April 2009, outlining the issues for the Council and details of the project in place to ensure compliance. Since this time CIPFA has consulted on its proposals for the IFRS based Code of Practice on Local Authority Accounting and the final Code was published in December 2009. The purpose of this report is to update the Committee on progress in ensuring the Council's compliance with the required changes.

Areas of Significant Difference between IFRS and the current Code of Practice on Local Authority Accounting (the Code) - Update

3. Property: Valuations for all operational land and buildings over £250,000 are being reviewed. These new valuations will also be used for the 2009/10 accounts where appropriate. All investment and surplus properties have been reviewed to ensure that they meet the new tighter definitions for these categories and this has resulted in the redesignation of some properties. For all assets acquired, enhanced or disposed of from 1 April 2010 IFRS requires us to account separately for different components. This has proved to be a difficult area to define and we are currently awaiting further advice from CIPFA Property to ensure a consistent approach with other authorities. Changes required to the SAP system to accommodate the additional data in this area have been identified and will be implemented after the 2009/10 closedown.
4. Leases: IFRS gives slightly different definitions of operating and finance leases. It also requires that leases of property are separated into land and buildings for accounting purposes. All leases with over £1,000 per annum rental have been reviewed and this has resulted in a few lease category changes. We have used this as an opportunity to review guidance to directorates and schools and we are looking to make improvements in this area. Some 100 plus high value Council contracts are in the process of being reviewed to determine whether they contain any 'embedded' leases. So far two such leases have been identified.

5. Service Concession Arrangements: These are contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of assets for public sector services e.g. under Private Finance Initiative (PFI) contracts. For the County Council there are implications for the Homes for Older People contract (£24m of property was removed from our balance sheet in 2001). This element of the IFRS-based Code must be adopted early and included as part of the 2009/10 accounts. This has proved to be the most technically complicated area.
6. Employee Benefits: IFRS places a requirement on the Council to accrue for any untaken annual leave, flexi leave or time off in lieu at the end of the financial year, which applies to all staff, including teaching staff. Data for non teaching staff has had to be collected for these items manually, since records are held locally and different practices are in place throughout the Council. Analysis has identified these sums to be approximately £1million for non teaching staff and approximately £14.5million for teaching staff. The Department for Communities and Local Government is implementing legislation to ensure that these sums do not impact on the local taxpayer. These sums will be charged to an employee benefit reserve.
7. Reporting, Presentation and Disclosure Requirements: The IFRS-based Code defines the four key statements in the Statement of Accounts as the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. There is a significant amount of remapping as the format of all four statements has changed. Although it was initially believed that the Comprehensive Income and Expenditure Account would need to be prepared using the Council's internal reporting format, the Code now confirms that we will continue to prepare the statement using the standardised format, but must include a reconciliation to the Council's internal reporting format as part of the notes. The new IFRS-based Code has more disclosure requirements in almost all areas and work is underway to ensure that comparative information for 2009/10 is captured as part of the 2009/10 final accounts process.
8. At this stage, we are not expecting a significant number of changes to the accounts and this is in keeping with the findings of other authorities. However it is crucial that we are able to demonstrate that the Council has reviewed its accounts thoroughly to ensure compliance with the requirements.

Plans towards achieving compliance

9. The Council's project to ensure compliance with the requirements of IFRS has been in place since February 2009 and paragraphs 3 to 7 above show the main focus of the work undertaken so far. Work is ongoing to finalise these for the transition balance sheet.
10. The project timescales have slipped from the original plan. This is due to both the later availability of the draft Code and subsequent training than originally envisaged and the length of time taken to review the large volumes of data

been greater than anticipated. However project timescales have been revised accordingly and the project is still on track to meet the requirements.

11. Work during the next few months will concentrate on finalising the transition balance sheet, together with ensuring that information requirements in respect of disclosure notes are collated as part of the 2009/10 closedown. Once the 2009/10 accounts are finalised, a set of shadow accounts prepared on an IFRS basis will need to be drawn up. Accounts for the 2010/11 financial year will need to be fully IFRS compliant.
12. Briefings and awareness training have been held with the established finance networks on a regular basis and these will continue throughout the project. Training for members on the changes brought about by the introduction of the IFRS based Code has been timetabled for early 2011, before the 2010/11 final accounts are completed.
13. Discussions have been held with the external auditor over approaches being taken and progress to date and they have indicated that they are happy with our progress. The Council's approach to IFRS conversion was reviewed by Internal Audit during the autumn and no issues have been raised.

Summary

14. The conversion to IFRS based statement of accounts continues to involve a significant amount of work for the Council. Work is ongoing to ensure we meet the requirements and staff remain confident that the Council will meet the requirements of IFRS conversion within the timescale.

RECOMMENDATION

15. **The Committee is RECOMMENDED to:**
 - (a) **receive the report; and**
 - (b) **note the IFRS project progress to date.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact Officers: Hilary Cameron, IFRS Project Manager Tel: (01865) 797231
Stephanie Skivington, Strategic Finance Manager (Financial Accounting & Reporting) Tel: (01865) 797443

December 2009