

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

**Report By: ACTING HEAD OF FINANCIAL SERVICES**

### **Wards Affected**

None affected.

### **Purpose**

1. To report to the Audit and Corporate Governance Committee on the progress on implementing International Financial Reporting Standards (IFRS).

### **Financial Implications**

2. No financial implications.

### **RECOMMENDATION**

**THAT the Audit and Corporate Governance Committee note the report.**

### **Reasons**

3. To inform the Audit and Corporate Governance Committee about the work being undertaken to prepare for IFRS. This information was requested at the previous Audit and Corporate Governance Committee.

### **Considerations**

#### **Timescale**

4. The council will be required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10. The PFI accounting arrangements will change a year earlier, from 2009/10.

#### **Joint Working**

5. The Hereford and Worcester Financial Managers Group, which includes representatives from Herefordshire Council, Worcestershire County Council and the Worcestershire District Councils, are working jointly on IFRS issues.
6. The external auditors, Grant Thornton, attended a meeting of the group on 23<sup>rd</sup> January 2009 to provide a training session on IFRS key issues, drawing on their experience within the NHS. Grant Thornton suggested that the group could work to a joint Action Plan.
7. The group decided that in order to work closely on IFRS issues that a specific IFRS task group should be formed. The first meeting of that group is on Friday 6<sup>th</sup> March 2009. Individuals within the group will be tasked to take the lead on specific topics.

## Herefordshire Council Progress

8. In addition to the joint working arrangements, work has been progressing on the following areas of major change:

**a) Private Finance Initiative (PFI) Accounting**

i) The Whitecross school PFI contract has been reviewed. The initial indications are that this will need to be recognised as an asset on the council's balance sheet from 2009/10. The accounting treatment will be complex and this may be an area where expert advice will be required. This is not expected to have a financial impact on the council.

**b) Leases**

i) The council's equipment leases have been reviewed under the IFRS criteria and most will continue as operating leases, where ownership remains with the lessor. A small number may be classified as finance leases where ownership is deemed to transfer to the lessee, resulting in an asset on balance sheet and a change in the accounting arrangements. There would be no financial implication.

ii) The council's property valuer is currently reviewing the council's property leases. Priority is being given to the leases where the council is the lessor, as the income would become a capital receipt rather than revenue receipt if the arrangement were to be classified as a financing lease. This would reduce the amount of revenue income in the council's accounts in 2010/11.

**c) Employee Benefits**

i) It has been confirmed that the restated balance sheet at 1<sup>st</sup> April 2009, as the comparative year for full IFRS in 2010/11, will require an accrual of holiday pay at 31<sup>st</sup> March 2009. Grant Thornton indicated that it may be possible to achieve this by taking a sample of employees. This has been raised with our external auditors and we will be meeting shortly to discuss an agreed approach with them.

## Risk Management

9. If IFRS is not interpreted correctly in the council's accounts and implemented in accordance with the required timetable it would impact on the Auditor's opinion on the accounts and the Use of Resources score. The management of this identified risk has commenced as evidence by attendance of staff on relevant training courses.

10. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case. A communications plan is being developed to raise awareness and IFRS will form part of the Council's financial training programme implemented as part of the Crookhall action plan. This plan will be finalised the end of March.

11. Sound project management will be a crucial part of the process to keep the project on track and to identify potential problems at an early stage. This may require additional resources and the Director of Resources will ensure this important project has the appropriate level of resource to meet requirements.

## **BACKGROUND PAPERS**

None