

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>29 JANUARY 2010</b>
<b>TITLE OF REPORT:</b>	<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b>
<b>TECHNICAL ACCOUNTING MANAGER</b>	<b>HEATHER FOSTER</b>

### **Wards Affected**

None affected.

### **Purpose**

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

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the Audit and Governance Committee comment on the report.**

### **Key Points Summary**

- The council will be required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10. PFIs and similar contracts are being accounted for under IFRS a year early, from 2009/10.
- A detailed project plan has been prepared and is attached as Appendix A.
- An asset register system has been procured and will be used to set up the IFRS compliant register for 2010/11.
- The Government has issued draft regulations to mitigate the effect of IFRS accounting on council tax.

### **Alternative Options**

1. There are no alternative options as all councils are required to produce IFRS compliant accounts from 2010/11.

Further information on the subject of this report is available from Heather Foster, Technical Accounting Manager on 01432 260284

## Reasons for Recommendations

2. Not applicable.

## Introduction and Background

3. It was agreed at the Audit and Governance Committee meeting on the 23 January 2009 that the progress report and action be presented at future meetings.

## Key Considerations

### Project plan

4. Since the report to the Audit and Governance Committee on 20<sup>th</sup> November 2009, a detailed project plan has been developed and is attached as Appendix A.
5. The initial outline plan included a deadline for restatement of the 1<sup>st</sup> April 2009 balance sheet by December 2009, as suggested by the CIPFA project template. However, this deadline has now slipped partly due to staff sickness, the volume of work and the late publication of the IFRS Code. At a recent CIPFA event it was recognised as being an aspirational date which most councils were not achieving. The IFRS Code itself was not published by CIPFA until December 2009 and received by the council on Christmas Eve. The slippage is not considered critical to the overall achievement of the IFRS implementation. In the 2010/11 budget, subject to Council approval, £40,000 has been set aside for the implementation of IFRS if additional resources are required.
6. The Audit Commission is being kept informed of progress.

### PFI and similar contracts

7. Accounting for PFI and similar contracts under IFRS has been brought in a year early, from 2009/10, so work on this has been made a priority.
8. The council has two PFI contracts, Whitecross school and Waste Disposal, both of which will be brought onto the council's balance sheet in the 2009/10 accounts. The calculations for the Waste Disposal contract are being undertaken by Worcestershire County Council and the treatment for both contracts are being audited by the Audit Commission in February, in advance of the main year-end audit.
9. A review of contracts with private contractors that include services and provision of assets is to be undertaken in order to identify any which may fall under the definition of a service contract and therefore treated in the same way as a formal PFI. The two main tests are:
  - (1) Does the authority control or regulate what services the operator must provide with the property, to whom and at what price?
  - (2) Does the authority control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the property at the end of the term of the arrangement.

### Asset Register

10. The council's fixed asset register is currently a stand alone spreadsheet-based system, which in the Audit Commission's Final Accounts report was described as 'cumbersome, labour intensive and creaking at the seams'. The system would not have been able to effectively

cope with the requirements of IFRS and posed a risk to the auditors' opinion on the accounts.

11. An integrated property management and asset register system, K2, has now been procured from Tribal. This will be implemented over the next few months and will provide a single source of property data and functionality to deal with the additional requirements of IFRS (e.g. component accounting).

### **Draft Regulations**

12. The government has issued draft regulations to mitigate the financial impact of implementing IFRS so that there is no impact on council tax.
13. Councils often own and grant leases on buildings (e.g. shops and industrial units) from which rents make a substantial contribution to revenues. Under IFRS some of these leases may be reclassified as finance leases instead of operating leases. This would result in the rent ceasing to be revenue income and instead becoming a capital receipt and therefore no longer able to support revenue expenditure. The draft regulations protect councils from the revenue shortfall by allowing a concession that this will only apply to leases entered into post November 2009. Leases granted after this date will be treated under the new accounting rules.
14. The IFRS accounting standards require local authorities to make a charge each year for the value of holiday entitlements that employees have not taken by the end of the financial year. However, the draft regulations negate this impact by providing that this is not actually charged to the council's revenue account.

### **Community Impact**

15. Not applicable.

### **Financial Implications**

17. There may be financial implications as set out in the report.

### **Legal Implications**

18. None.

### **Risk Management**

19. 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 evidenced by attendance of staff on relevant training courses.
20. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case.
21. 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. £40,000 has been earmarked in the 2010/11 budget to purchase additional support if required.

## **Consultees**

22. None.

## **Appendices**

23. Appendix A – IFRS Detailed Project Plan.

## **Background Papers**

- CIPFA LAAP Bulletin 80 March 2009 – Implementation of IFRS – Outline Project Plan