

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open.

### **Wards Affected**

None affected.

### **Purpose**

To report on the progress for implementing International Financial Reporting Standards (IFRS).

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the report be noted.**

### **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 have been accounted for under IFRS a year early, from 2009/10.
- A detailed project plan has been prepared and is attached as Appendix A.

### **Alternative Options**

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

### **Reasons for Recommendations**

2. Not applicable.

### **Introduction and Background**

3. It was agreed at the Audit and Corporate Governance Committee meeting on the 23 January

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

2009 that a progress report and action be presented at future meetings.

## **Key Considerations**

### **Work plan**

4. Since the report to the Audit and Corporate Governance Committee on 29 January 2010, the detailed project plan has been updated and is attached as Appendix A.
5. The deadlines have been moved from the original timetable, partly due to unrealistic targets proposed by CIPFA, but also due to staff having to concentrate on the 2009/10 accounts. This is not considered critical to the overall achievement of the IFRS implementation. In the 2010/11 budget £40,000 has been set aside for the implementation of IFRS if additional resources are required.
6. Following the completion of the 2009/10 accounts regular meetings of the Herefordshire and Worcestershire Financial Managers group and the council's implementation team have resumed. The key areas of work identified to be completed over the autumn are leases and assets.
7. The Audit Commission is kept informed of progress.

### **PFI and similar contracts**

8. Accounting for PFI and similar contracts under IFRS was brought in a year early, from 2009/10, so work on this was made a priority.
9. The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract. The calculations for accounting under IFRS are extremely technical and time-consuming and this was the biggest challenge for the 2009/10 accounts.

### **Leases**

10. A considerable amount of work has been undertaken on reviewing the council's leases. The majority of leases have been assessed as operating leases leaving a few potential finance leases requiring further analysis.
11. Major contracts have to be reviewed to determine whether they include 'embedded finance leases' i.e. where the council effectively purchases an asset as part of a wider contract. Two major contracts have been identified so far for detailed review, the Amey contract and the Fosca waste collection contract.

### **Assets**

12. A significant area of work over the next few months is around the treatment of fixed assets, as shown in the project plan at Appendix A.
13. The council's fixed asset register is currently a stand alone spreadsheet-based system, which will not effectively cope with the requirements of IFRS on an on-going basis. A property management system called K2 is being used by Property Services and it had been hoped to integrate this with the fixed asset register used for the accounts. However, on further investigation the system did not provide the range of functionality required and it has been decided to use the Agresso fixed asset module. This will link directly with the Agresso integrated back-up system to be implemented from 1 April 2011.

## **Community Impact**

14. 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. 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**

24. None.