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| <b>MEETING:</b>         | <b>AUDIT AND GOVERNANCE COMMITTEE</b>                     |
| <b>DATE:</b>            | <b>12 NOVEMBER 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.

### **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.
- A detailed project plan has been prepared and is attached as Appendix A.
- A meeting has been held with the Audit Commission to review progress and agree arrangements for auditing the restated prior year accounts and identify key areas of risk.

### **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.

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

## Introduction and Background

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

## Key Considerations

4. Since the report to the Audit and Corporate Governance Committee on 17 September 2010, the detailed project plan has been updated and is attached as Appendix A.
5. The main areas of progress since the last report have been;
  - Training and initial work on building the Agresso fixed asset module has commenced.
  - A draft component accounting policy (for fixed assets) has been developed, which has been submitted to the Audit Commission for review.
  - The council's contract with Amey has been reviewed against the IFRS criteria for embedded leases.
  - Holiday accruals have been calculated for 2008/09 and 2009/10 for non-schools based staff. HR is working with Financial Services to provide information to enable the calculation for schools-based staff to be undertaken.
  - Government grants in the 31 March 2009 and 31 March 2010 balance sheets are being reviewed.
6. 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. Work has begun on building the Agresso fixed asset module, which will link directly with the Agresso integrated back-up system to be implemented from 1 April 2011. Financial Services and Property Services are working together to ensure consistent referencing and systems' integration.
7. Major contracts have to be reviewed to determine whether they include 'embedded finance leases', where the council effectively purchases an asset as part of a wider contract. Two major contracts have been identified so far as potentially falling in this category, the Amey contract and the Fosca waste collection contract. An analysis of the Amey contract against the keys tests has been completed which indicates that this contract does not include embedded leases. This has been forwarded to the Audit Commission for review.
8. A meeting has been held with the Audit Commission to review progress and agree arrangements for auditing the restated prior year accounts and identify key areas of risk. As elements of the programme are completed they will be submitted for audit so that the restated accounts will be audited before the financial year end. A target date for the restated balance sheets and revenue account has been agreed as December 2010, which means that significant issues will be resolved before the 2010/11 audit of accounts. The key area of risk identified is the review of contracts to determine whether any include 'embedded finance leases'.

## Community Impact

9. 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 identified.