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## IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

### 1 SUMMARY

- 1.1 The purpose of this report is to update Members on the timetable for compliance with International Financial Reporting Standards (IFRS) and the implications for the Council.
- 1.2 The report provides an update on development since first reported to this Committee in December 2009, and what the timetable is going forward.

### 2 INTRODUCTION

- 2.1 As previously reported, up until this financial year, Local Authority financial statements were prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, Statement of Recommended Practice (SORP). This SORP was prepared using UK Generally Accepted Accounting Principles (GAAP), by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved by the Accounting Standards Board (ASB).
- 2.2 From 2010/11, the new Code of Practice, applicable for producing the 2010/11 accounts, will be prepared using accounting principles under IFRS.
- 2.3 Since the announcement of the transition was first made Local Authority officers have been considering the changes that will be occurring and how these will affect Rochford as an Authority. The first change to be implemented was for Private Finance Initiatives in 2009/10, however Rochford does not undertake any of these at present and there are therefore no implications for this area.

### 3 PROGRESS

- 3.1 The areas most affecting the Council under IFRS are detailed below, with a summary of the Council's current position:-
  - Employee Benefits – systems have been put in place to capture the required information for outstanding holiday leave, therefore there should not be any residual issues in this area.
  - Leases – The Council receives approximately £15,000 in revenue income from leases. No changes to the accounting arrangements for these are required and they will continue to be recognised as revenue income to the General Fund. Under IFRS it is necessary to consider contract arrangements such as the Recycling Scheme where the contractor uses assets such as recycling vehicles to deliver the service on behalf of the Council. It may be necessary to recognise the assets on

the Council's balance sheet and treat them as a lease (known as embedded leases) but this is under discussion with the External Auditors.

- Fixed Assets – Component Accounting. This involves splitting all assets into components that make up a significant element of the asset, i.e., a building has heating system, roof, etc. Officers are currently liaising with the External Auditors to get approval for the approach taken which will mean that none of our assets are componentised until major parts are replaced, for example a lift or heating system.
- Disclosure Requirements are being worked through and guidance notes were received from CIPFA in January that give further clarification on the additional requirements to be met. One significant area is segmental reporting. This means that, in addition to the prescribed format of the Income and Expenditure Account, there will also have to be a statement showing the accounts broken down into segments, which reflect the way the budgets are reported to the Executive, i.e, by Head of Service. This will then have to be reconciled back to the total in the accounts.
- Capital Transactions from previous years – IFRS requires different treatment to transactions than the previous Code. In the 2009/10 transition year, work therefore needs to be done to ensure that such transactions are identified and reversed, as necessary. This relates specifically to revaluation gains that can be used to reverse impairment losses from previous years.
- Government Grants – Currently, these are recorded in a Government Grants Deferred Account. However, under IFRS this account no longer exists. Instead all grants have been reviewed to identify whether there are any conditions attached. This will determine whether the grant should be recorded as a creditor or a reserve amount.

3.2 Discussions have been had with other Authorities and the external auditors in order to ensure that all decisions are consistent. In addition, a workshop was organised with Essex Finance Managers and external auditors in October to consider outstanding matters and Finance staff have attended various training courses.

#### 4 IFRS IMPLICATIONS AND PLAN

4.1 The following summarises the outstanding actions:-

Action	Due Date
Agree accounting treatment of embedded leases and financial implications with external auditors	31/3/11
Review capital transactions from previous years	31/3/11
Review Code for areas not yet amended for transition	31/3/11
Restate 2009-10 financial statements	28/2/11

Action	Due Date
Create 2010-11 working papers to collect relevant information	31/3/11
Create 2010-11 financial statements	30/5/11

## 5 RISK IMPLICATIONS

- 5.1 If the code is not interpreted correctly, or work is delayed, then there is a risk of accounts being qualified.
- 5.2 Although CIPFA has been producing sections of the Code, the final version of the Code and Guidance Notes was only available in January so some areas have yet to be assessed for accounting changes.

## 6 REVENUE IMPLICATIONS

- 6.1 Current indications are that where there is a potential revenue implication the Code has put in place arrangement to mitigate this. As there is still work to be done on leases, there is the potential that there may be a revenue risk and this will be highlighted as soon as is possible. It is not anticipated that there will be any significant implications.

## 7 RESOURCE IMPLICATIONS

- 7.1 There has been, and continues to be, significant staff time involved in preparing the amended statements.

## 8 LEGAL IMPLICATIONS

- 8.1 The Authority is required to produce compliant accounts. If these are not provided, auditors will issue a qualified opinion.

## 9 RECOMMENDATION

- 9.1 It is proposed that the Committee **RESOLVES**

That the report be noted and that arrangements the Council is making for the implementation of the change in IFRS Financial Reporting also be noted.

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**Background Papers:-**

None.

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