# 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 previously highlighted to most affect the Council under IFRS are detailed below with a summary of where the Council is in dealing with these at this time:-

- Employee Benefits – systems have been put in place to capture the required information for outstanding holiday leave, therefore there are not considered to be any residual issues in this area.

- Leases – There is ~£15,000 of revenue income from leases to the Authority and there will need to be some review of whether any change to the accounting of these is required. However, due to the nature of the leases and amounts this is not considered a significant area. Under IFRS it is necessary to consider arrangements that may contain a lease (embedded lease). This has been done, and officer time will be required to assess the financial implications of changing the way some contracts are recognised. It is anticipated that there will not be any revenue impact from this.

- Fixed Assets – Component Accounting. Discussions are being held with the valuers to identify how best to split the Authority's assets into components. 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.

- Disclosure Requirements are being worked through and guidance notes are due from CIPFA later this month that will 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 need to be 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 with other Local Authorities and agreed with our external auditors. 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 |
|---|---|
| Restate 2008-09 balance sheet | 31/10/2010 |
| Reformat Statement of Accounts | 30/11/2010 |
| Review Leases where RDC is the lessor | 30/11/2010 |
| Review embedded leases and financial | 30/11/2010 |

| Action | Due Date |
|---|---|
| implications | |
| Obtain holiday accrual figures for 2009/10 restatement | 31/12/2010 |
| Agree with valuers details for component accounts | 31/01/2011 |
| Complete papers for segmental reporting | 31/01/2011 |
| Review Government Grants | 31/10/2010 |
| Review capital transactions from previous years | 31/12/2010 |
| Review Code for areas not yet amended for transition | 31/12/2010 |
| Restate 2009-10 financial statements | 31/12/2010 |
| Create 2010-11 working papers to collect relevant information | 31/03/2011 |
| Create 2010-11 financial statements | 30/05/2011 |

## 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 will not be available until December and there are still some areas where the final application of IFRS to Local Authority accounts has not yet been confirmed.

## 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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