Audit Committee – 28th January 2010

5. Preparation of 2010/11 Statement of Accounts and IFRS

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Purpose of the Report

To update members of the Audit Committee on the progress being made on implementing statutory required changes in financial reporting from UK General Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS).

Recommendation

(1) That members note the plan that is in place to meet the timeframes for International Financial Reporting Standards to be implemented;

(2) that members note the progress being made on implementing statutory required changes in financial reporting under International Financial Reporting Standards;

(3) that members recognise that IFRS is a corporate issue and does not rest solely with Finance.

Background

It is a statutory requirement for all local authority financial statements to be IFRS compliant by 2010/11. In order to prepare IFRS compliant accounts by 2010/11, the Council will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis.

An Action Plan (Appendix A, page 4) has been produced to ensure that the Council achieves relevant timescales in order to comply with the statutory requirements.

The main areas that the Council will need to focus on is:

- First time adoption
- Leases (lessee and lessor accounting)
- Fixed Asset Accounting
- Employee Benefits
- Group Accounts
- Segmental Reporting.

First Time Adoption

To prepare IFRS compliant accounts for 2010/11 with full comparative data, the Council needs to prepare an opening balance sheet that is IFRS compliant as at the transition day of 1st April 2009. This will enable comparison figures for 2009/10 to be prepared, with full disclosure of IFRS Statements at 31st March 2011.

The main components of the financial statements will remain broadly the same, but there will be some areas where the format and content of the financial statements will change significantly. Additional disclosures will be required.

The names of Financial Statements will change as follows:

UK GAAP	IFRS
Balance Sheet	Statement of financial position
Profit & Loss Account	Statement of Income
Cashflow Statement	Cashflow Statement
STRGL	Statement of Comprehensive Income
Movement in shareholders funds	Statement of Changes in Equity
Notes to the Accounts	Notes to the Accounts

Where there have been changes in accounting estimates, disclosure will need to be made of the nature and amount of the change that effects the current period or that is expected to have an effect in future periods, e.g. revision of asset lives.

Leases (lessee and lessor accounting)

Lessee Accounting

Under IFRS the Council will need to review the current lease register and assess whether leases currently classified as operating leases should be classified as finance leases. Work has been carried out to identify all leases and collect necessary documentation in order to carry out the assessment. Issues need to be discussed with the external auditors.

Early indications show that there will be some accounting treatment changes, with more Finance Leases having to be moved on to the Balance Sheet, creating an asset and a liability to finance it. This will have an impact on MRP (Minimum Revenue Provision) (although at this stage no value has been calculated) but the MRP policy can be such as to equate MRP to future principal repayments. The General Fund will also be affected, as retrospective accounting will need to be applied, as it is necessary to account for Finance Leases as if they always have been such.

Further work is required on Service contracts. Under IFRS a wider scope definition is used and more emphasis is being placed on service contracts and how assets are being used to deliver services.

Lessor Accounting

Work is being carried out to assess where we are the lessors whether these leases will become a finance lease. There will be some accounting requirements to derecognise the asset from the balance sheet and create an asset in the form of a debtor. Any payments made will have to be split into reducing the value of the debtor and recognising a capital receipt. An element will show in the profit and loss as interest receivable. The General Fund will also be affected, as retrospective accounting will need to be applied, as it is necessary to account for Finance Leases as if they always have been such.

Fixed Asset Accounting

IFRS introduces the concept of accounting for the different components of assets separately, including recognising the depreciation charges of the components separately. Component accounting recognises that different components of assets could have a different life. Component accounting will not be applied retrospectively. Significant elements of assets will need to be recorded, valued and depreciated separately.

Plant, Property and Equipment are to be reviewed, in order to ensure that assets are being categorised appropriately so that the accounting treatment of assets are correct.

Employee Benefits

Under IFRS, the Council has to recognise an annual leave pay accrual.

The Council's annual leave year is different for each employee, with the anniversary of his or her start date being the start of annual leave. A spreadsheet has been formulated and Managers have been asked to complete this spreadsheet in order to highlight how many days leave each individual has taken up until 31st March and how many hours flexi has been accumulated. These figures will then be used to quantify a monetary value. An Employee Benefit Reserve will need to be created and debited with this amount from the General Fund.

The data for the opening figures for 2009/10 have already been collated. Plans are in place to collate the same information for the closing of 2009/10.

The Council needs to recognise that this is a corporate issue and does not solely lie with Finance.

Segmental Reporting

Notes to the accounts should reflect the organisational structure and how various parts of it perform financially. It is recommended that the segments are the same as those reported internally and which management use to monitor and control the resources of the Council.

Conclusion

A lot of work has already taken place and good progress has been made in order to meet the statutory requirements. The Audit Committee will be updated on a regular basis.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

Background Papers: *None.*