

IMPLEMENTATION OF IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS) - PROGRESS REPORT

1 Purpose

- 1.1 The purpose of this report is to inform Members of the progress being made towards the pending introduction of International Financial Reporting Standards (IFRS).

2 Recommendations/for decision

- | |
|--|
| 2.1 That the Audit Committee note the progress made to date. |
|--|

3 Supporting information

- 3.1 The Chancellor's 2007 Budget announcement introduced IFRS-based financial reporting for government and public sector accounting from 2008/09. This was updated in the 2008 Budget Report and as a result Central Government and Health will be required to adopt IFRS for the production of their 2009/10 annual accounts (with comparatives for 2008/09). The adoption by Local Government will be required for annual accounts from 2010/11 (with comparatives for 2009/10).
- 3.2 The Government's main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.
- 3.3 The private sector has been using IFRS since 2005 and the Government decided that the annual financial statements of Government Departments and other public sector bodies will in future be prepared using IFRS adapted as necessary for the public sector.
- 3.4 Because the 2009/10 comparable figures for the 2010/11 accounts have to be produced on an IFRS basis work commence by restating balances as at 1st April 2009 and the 2009/10 accounts in an IFRS format
- 3.5 The areas of change for local authorities are as follows but the impact and significance for each Council varies in accordance with the nature of their business and the particular transactions which they undertake;

Significant Changes

- First time adoption
- Increased disclosures
- Private Finance Initiatives
- Leases
- Segmental Reporting
- Financial Instruments
- Investment Property

- Assets – Infrastructure, Intangible and Tangible
- Group Accounts

Some Changes

- Accounting Policies
- Presentation of financial statements
- Cash flow statement
- Employee benefits
- Impairments

Minor Changes

- Inventories (Stock)
- Post balance sheet Events
- Provisions
- Related party transactions
- Government Grants

3.6 Of this list, those which have particular significance for this Council are considered in Section 4.

4 Progress Towards Implementation

4.1 Aylesbury Vale's Finance Team hosted a joint group consisting of other Districts, Fire Service and the County Council to discuss the main issues and approach being taken by everyone. It was agreed that the group would meet regularly to talk through the detail, share processes and to develop a co-ordinated approach to the issues. The next meeting is scheduled for March 2010.

Presentation of Financial Statements and Disclosures

- 4.2 The Chartered Institute for Public Finance and Accountancy (CIPFA) set out an indicative timetable for completing the transition to IFRS based accounts within its Local Authority Accounting Panel (LAAP) Guidance Note 80. A copy of this note has been previously circulated to members of the Audit Committee.
- 4.3 The guidance note suggested that work should be completed on restating the Balance Sheet by the end of December 2009. In practice this has not happened, but work is underway to complete the exercise by the end of March 2010. Liaison and discussion with other authorities has identified that Aylesbury Vale is not alone in not meeting the suggested December date.
- 4.4 Restating the Balance Sheet requires changing the layout of the Balance Sheet and incorporating the changes around Property, Plant and Equipment, Cash & Cash Equivalents and Reserves. The main differences is that the Balance Sheet will be less detailed than currently is shown. Instead the majority of detail will now appear in extended notes, which will also need to be restated.

- 4.5 The new fixed asset package for reporting under IFRS regulations has been successfully installed. As part of the 2010 accounts closure process any changes that have occurred to our assets during this year will be replicated in the IFRS package to ensure the information is consistent. The target for achieving this is the 31st May 2010.

Property, Plant and Equipment

- 4.6 Assets previously referred to as Fixed Assets, will be now known as Property, Plant & Equipment. One major change will be that assets that are actively being sold will no longer show as a fixed asset but will be now show as a current asset. This Council already meets the requirement to split asset values between land and building so no significant work is required here. All other changes required will be managed through the new fixed asset package.
- 4.7 An ongoing task will be to identify components within our buildings. Basically, items that have differing useful lives to that of the building i.e. boilers, lifts, sound systems etc. These will have to be accounted and valued separately when they come up for replacement. With the Conference Centre and theatre approaching completion separate valuations will be required for all major components.
- 4.8 The ultimate deadline for this area of work will be 31st March 2015 as by then all properties will have been re-valued during this period. It may be that this Council will complete the work before that date but it hat will depend upon having resources (financial and staffing) available to engage a professional valuer to do a larger proportion each year than we currently do.

Leases

- 4.9 Information has been requested from all services managers on equipment held and assets used which are subject to leases.
- 4.10 Information has been received back on the leases held by the Council and work has begun on examining these in detail to see if they need to be treated differently.
- 4.11 It is intended that this work will be completed by the end of March 2010.

Employee Benefits

- 4.12 There is a requirement to calculate the value of, and accrue for, untaken annual leave entitlement under IFRS. The Council's timerecording system holds information on each employee's actual entitlement together with that which is still owed to employees.
- 4.13 The system has been tested to identify whether the information is suitable for use in calculating the value of untaken leave at the year end and it has been found to be adequate for the purposes.
- 4.14 Based on this a method of extracting, manipulating and valuing untaken leave has been devised for use at the yearend. Prapartory work on this requirement is therefore complete.

5 Reasons for Recommendation

- 5.1 Compliance with International Financial Reporting Standards will be a statutory requirement. The transition is complicated and requires significant input in terms of additional systems and resources.
- 5.2 This report highlights progress to date.

6 Resource implications

- 6.1 The additional costs incurred so far are limited to the acquisition and implementation of a new compliant asset register system. It cost £10,500 and was funded from the provision for financial systems replacement.
- 6.2 Additional costs are likely to be incurred in terms of specialist support, higher valuation fees to deal with increased valuation requirements and potentially higher audit fees in future years.
- 6.3 The introduction of IFRS will not produce any tangible benefits or savings to this Council.

7 Response to Key Aims and Objectives

- 7.1 Compliance with statutory accounting requirements scores against the Comprehensive Area Assessment and within Use of Resources.

Contact Officer
Background Documents

Andrew Small Tel: 01296 585507
Previous External Audit Governance report to the Audit Committee, Audit Committee previous minutes