

<b>SUBJECT:</b>	<b>Statement of Accounts 2010/11 Implementing International Financial Reporting Standards (IFRS) Update Report</b>
<b>REPORT OF:</b>	<b>Officer Management Team - Director of Resources Prepared by - Head of Finance &amp; IT</b>

## 1. Purpose of Report

- 1.1 To provide Members of the Audit Committee with an update on preparations for adopting International Financial Reporting Standards in 2010/11.

## 2. Links to Objectives

- 2.1 Producing financial statements is part of good corporate governance and is essential for the prudent use of resources.

## 3. Background

- 3.1 Currently local authorities produce their Accounts in line with UK Financial Reporting Standards (FRSs) - often referred to as UK Generally Accepted Accounting Practice (UK GAAP). These FRSs being adapted as appropriate for the special statutory regime that local authorities operate under.
- 3.2 From 2010/11 local authorities will be required to produce their Accounts in line with International Financial Reporting Standards (IFRSs). These IFRSs being adapted as appropriate for the special statutory regime that local authorities operate under.
- 3.3 IFRSs are similar to FRSs and indeed over recent years these two sets of standards have been converging. However there are a number of significant changes that local authorities will need to prepare for.
- 3.4 The first set of IFRS compliant local authority accounts will cover the period 1 April 2010 to 31 March 2011 (ie 2010/11) and will need to be produced by the end June 2011.
- 3.5 The 2010/11 Accounts will require the Authority to fully restate prior year comparator figures ie all figures for 2009/10 will firstly need to be produced in accordance with UK standards for the 2009/10 Accounts and then restated in line with international standards for inclusion as prior year comparators in the 2010/11 Accounts, and to do this restatement will require the balances as at 1 April 2009 to be adjusted in line with IFRSs. 1 April 2009 is therefore a key date and is known as the transition date.
- 3.6 On 1 April 2009 the Audit Committee received a report providing information about local authorities adopting International Financial Reporting Standards in 2010/11.
- 3.7 This report now provides an update on SBDC's preparations.

## 4. Key Issues

4.1 The following table details the main issues that are being introduced by IFRSs and progress made to date

Area	2009/10 Accounts Based on UK Standards	2010/11 Accounts Based on International Standards	On track	Update
Format of Accounts	Local authority accounts include - I&E Account / STRGL - Statement of Movements in General Fund Balance - Balance sheet - Cashflow statement.	Local authority accounts include - Comprehensive I&E Statement - Movement in Reserves Statement - Balance sheet - Cashflow statement (different layout). (Group accounts are also more likely to be required)	Yes	The following have been drafted - Comprehensive I&E Statement - Movement in Reserves Statement - Balance sheet And movements have been mapped as far as is currently possible.
Untaken Holiday / Flex Entitlement	Not included in Accounts	The value of untaken holiday / flex entitlement needs to be accrued for ie if as at 31 March 2010 cumulatively staff have untaken holiday leave from 2009/10 totalling 100 days then the cost of this will need to be accrued (ie 100 days x £8 per hour x 7 hours)	Yes	The value of untaken holiday / flex as at 31 March 2009 has been calculated (approx £80,000).
Tangible Fixed Assets	- Valuation based on fair value or depreciated replacement cost. - Tend to record buildings as just one composite asset. - Depreciation based on 'fixed' residual value. - Assets held for sale valued at market value.	- Valuations mainly based on fair value. - Increasing need to split assets into components and record separately. - Depreciation may change if residual value fluctuates. - Assets held for sale valued at market value or current value if less - New definition of investment properties, changes to accounting rules and more extensive disclosures (have own standard IAS 40).	Yes	Fixed asset categorisations have been reviewed in line with the new guidance. This is unlikely to be a significant issue for SBDC. However the Authority may need to update some of its asset valuations.

Area	2009/10 Accounts Based on UK Standards	2010/11 Accounts Based on International Standards	On track	Update
Leases	A lease is either a finance or an operating lease depending on the risks and rewards of ownership - with a key test being whether the guaranteed value of the lease payments is more than 90% of the asset value. Leases are considered in their entirety eg not split between land and buildings.	New rules regarding how to classify leases will be introduced based more on professional judgement (if land is not transferred at end of lease then likely to be operating lease). Land and buildings have to be considered separately. (Nb: This may affect the Capswood lease).	Almost	An external valuer has been appointed to carry out a review of the Capswood lease in line with the new valuation methodology.  Details of all land and buildings that have been leased to other parties has been compiled and provisionally assessed against the new standards. However guidance on long term land leases is currently unclear and further clarification on this issue will need to be obtained.
Terminology Changes	Use UK terminology (eg long-term liabilities, stock).	Use international terminology (eg non-current liabilities, inventory).	Yes	Terminology has been mapped as far as is currently possible.
Statutory Override	-	Central Government may introduce a statutory override to mitigate some of the impacts of adopting IFRSs.	N/A	No draft Statutory Instrument has yet been issued.
Disclosure Notes	Extensive disclosure notes are required (the accounts are approximately 50 pages long).	Even more extensive disclosure notes are required (size of accounts likely to increase by up to a further 20 pages).	N/A	Draft disclosure notes are not yet available and thus the Authority is unable to consider these as yet.

## 5. Progress with IFRS Implementation Plan

5.1 The following table provides an update on progress with the high level implementation plan.

Date	Task for 2009/10 Accounts Based on UK Standards	Task for 2010/11 Accounts Based on International Standards	Done	Comment
1 April 09		Obtain details of untaken holiday / flex entitlement.	✓	
By end Jun 09	Produce 2008/09 Accounts (will be prior year comparators in 2009/10 accounts)		✓	Although Accounts not yet signed off by our external auditors.
Sep 09		Restate 1 April 09 Balances in IFRS format (map movements).	✓	Movements have been mapped as far as is currently possible.
Sep 09		Start looking at key changes eg - Leases (will need full list and review each one) - Tangible Fixed Assets - Intangible Fixed Assets.	✓	Good progress is being made on these issues.
1 April 10		Obtain details of untaken holiday / flex entitlement.	Not yet due	
By end Jun 10	Produce 2009/10 Accounts. (Nb: Changes being introduced in the 09/10 accounts relating to accounting for Council Tax and NNDR income).		Not yet due	
End Sep 10		Restate 09/10 Accounts in IFRS format.	Not yet due	
By end Jun 11		Produce 2010/11 Accounts. (including full reconciliation to UK GAAP)	Not yet due	

## 6. Resource, Risk and Other Implications

- 6.1 Implementing IFRSs is a major project and will require significant time and effort. This work will mainly fall on the Finance team. However there will also need to be input from legal and property services (ie to review leases).
- 6.2 The move to IFRSs may also coincide with the establishment of a support services joint venture company. Responsibility for preparation of the 2010/11 Accounts could therefore become a joint venture company responsibility (although the ultimate responsibility for preparation of true and fair accounts will always rest with the Authority). Furthermore any participation in a joint venture company is likely to require additional extensive disclosures in the SBDC Accounts.
- 6.3 As part of the transition we will be liaising with the Audit Commission to agree accounting treatments and formats to minimise the risk of error. Any significant errors could affect our Use of Resources assessment score.
- 6.4 Our external auditor is also paying close attention to our IFRS preparations, and they have the ability to bring to the Committee's attention any matters of concern.
- 6.5 As part of the 2010/11 budget progress £2,000 has provisionally been included to help with valuation issues relating to implementing IFRSs.

## 7. Recommendation

- 7.1 The Audit Committee note this report.

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Background Papers:	