

**Audit Committee – 10<sup>th</sup> February 2011**

**Report of the Treasurer**

**Progress on Implementing International Financial Reporting Standards**

**Purpose of Report**

1. To inform Audit Committee of the progress that the Council has made to date on the implementation of International Reporting Standards (IFRS).

**Background**

2. In March 2007, the Government announced in its Budget Report the intention that all government and other public bodies should in future publish their annual financial statements in line with International Financial Reporting Standards (IFRS). The new reporting standards were implemented by central government bodies in 2009/10 whilst Local Authorities are required to do so in 2010/11.
3. A report was presented to Audit Committee in April 2009 outlining the key areas of IFRS impact. Audit Committee has responsibility for the approval of the Council's Statement of Accounts and the transfer to IFRS represents a major change to the accounting standards on which the Statement of Accounts are based.
4. As well as reporting the statutory final accounts for 2010-11 on an IFRS basis, the Council is required, in the first year of IFRS adoption, to restate the 2009-10 final accounts on an IFRS basis. The Chartered Institute of Public Finance and Accountancy (CIPFA) have adopted International Financial Reporting Standards for Local Authorities. CIPFA have produced the IFRS Code of Practice on Local Authority Accounting together with published guidance in December 2010 for practitioners to help implement the changes. The key areas of IFRS impact are detailed below.

**PFI-type arrangements**

5. The Council was required to adopt the IFRS guidance relating to PFI and PFI-type schemes (generally termed "service concessions") in 2009-10 along with the rest of the public sector. A detailed review of PFI schemes and service concessions was carried out in 2009-10 resulting in two schemes, namely the Paragon Schools (Summerhill and Colley Lane) and the Waste-to-Energy plant being brought on to the Council's balance sheet. This required a complex accounting exercise to calculate the value of the assets and liabilities relating to these assets for inclusion in the final accounts.

## **Leases and Lease-Type Arrangements**

6. IFRS adoption requires the authority to carry out a review of all leases, both as a lessee and a lessor. The criteria for what is deemed to be a finance lease are different under the new guidance. The accounting treatment of finance leases is more complex as the asset and liability relating to such a lease have to be added to the balance sheet. A review of leases and lease-type arrangements is currently in progress involving finance and property officers. Although this review is assessing hundreds of leases, it is expected that only a relatively small number will change classification under the new guidance.

## **Fixed Assets**

7. IFRS adoption has resulted in a review of the Council's fixed asset register as there are changes to the classification of assets which changes their valuation on the balance sheet and resulting depreciation charges. There is also a requirement to split assets into components where major components have different economic lives to the main asset. An exercise to implement these changes is currently on-going.

## **Employee Benefits**

8. The Council is required to accrue for the value of employee benefits earned but not used by the end of the financial year. This principally impacts on annual leave and flexi-leave owing to employees at 31st March. An exercise to value this accrual is being carried out. However, there will be no actual impact on the Council's financial position as the Government has issued legislation to mitigate the effect of accounting for this liability on the Council's financial outturn.

## **Other Areas of IFRS Impact**

There are a number of other areas of IFRS impact on the final accounts such as Group Accounting, Segmental Reporting, Intangible assets, Accounting for Grants and others which require detailed review of accounting processes and policies. There are also major changes to the format of the final accounts and the disclosure notes. In general the level of reporting and disclosure is more onerous and the volume of the financial statements will increase. There will also be changes required to the Council's financial accounting system to ensure IFRS compliance.

## **Planning and Resources**

The Council is working to a detailed project plan to implement the changes required for IFRS compliance. The work has been principally done within the Accountancy Division within existing resources and with assistance from officers in other services where necessary, particularly Property Management. Technical advisors have assisted with the more complex areas of the implementation. There has been regular liaison with the Council's external auditors throughout the implementation process.

## 11. **Final Accounts**

It is expected that a draft set of 2009-10 financial statements re-stated on an IFRS basis will be completed by March 2011. In the same period, processes will be updated to ensure 2010-11 financial statements will be produced on an IFRS basis. The draft financial statements for 2010-11 (including re-stated 2009-10 accounts) will be presented to Audit Committee in June and the final audited accounts will be presented in September to comply with statutory deadlines. A further progress report will be presented to April Audit Committee

## **Finance**

12. The costs of IFRS implementation have been met from existing resources. There are a number of detailed implications for the Council's statutory final accounts, arising from implementation of IFRS, but these do not have any significant effect on the financial standing of the Authority.

## **Law**

13. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

## **Equality Impact**

14. The activities considered in this report have no direct impact on issues of equality.

## **Recommendations**

15. Audit Committee note the progress on IFRS implementation.



Contact Officer: Amarjit Uppal

Telephone: 01384 812425

Email: [amarjit.uppal@dudley.gov.uk](mailto:amarjit.uppal@dudley.gov.uk)

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**Iain Newman**  
**Treasurer**

## **Background Papers**

Code of Practice on Local Authority Accounting 2010/11