

Council/ Committee:	Audit Committee	Agenda Item No.:	13.
Date:	15 <sup>th</sup> December 2010	Category	
Subject:	International Financial Reporting Standards (IFRS)	Status:	Open
Report by:	Head of Finance and Revenues		
Other Officers Involved:	Chief Accountant		
Director	Director of Resources		
Relevant Portfolio Holder	Leader of the Council		

## **RELEVANT CORPORATE AIMS**

**STRATEGIC ORGANISATIONAL DEVELOPMENT** – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources

**TARGETS** – To ensure our Statement of Accounts is fully compliant with the International Financial Reporting Standards

**VALUE FOR MONEY** - None

## **1.0 THE REPORT**

Members will recall being presented with a report on the requirements the implementation of the International Financial Reporting Standards (IFRS) for Bolsover District Council. This report seeks to inform the Audit Committee of the progress to date and the most significant areas of work being undertaken.

## **2.0 Background**

2.1 The Code of Practice on Local Government accounting in the UK, a Statement of Recommended Practice (SORP), is the framework that local authorities use for producing their financial accounts. All financial transactions (whether income, expenditure, assets, liabilities or reserves) of the Council are evaluated, based upon the accounting policies and advice given in the SORP and its accompanying guidance notes.

- 2.2 The SORP is based on UK GAAP (Generally Accepted Accounting Practice) but amended for local authorities due to statutory rules or regulatory requirements. This means that the accounting policies followed by local authorities are generally based on advice and interpretations from the UK Accounting Standards Board.
- 2.3 As part of a wider public sector move to internationally based accounting standards, agreed by the Treasury, all local authorities will be required to prepare their statutory Statement of Accounts in accordance with an IFRS-based CIPFA Code of Practice from 2010/2011, rather than the UK SORP. The move to IFRS is a global initiative and includes most major economic countries, with US GAAP planning to move to IFRS in the next few years. In the UK, the private sector moved to IFRS several years ago, followed by Central Government and the NHS in 2009/2010.
- 2.4 The aim of moving all bodies to IFRS is an attempt to globalise consistent accounting policy. By standardising accounting treatment as far as possible across key areas (such as property, plant and equipment and employee costs) and providing for additional disclosures in those and other areas, there should be uniformity in terms of financial accounts presentation.
- 2.5 The financial year 2010/2011 will be the first year for actual IFRS-based accounts to be produced. However, these accounts will be required to show full IFRS comparative figures for the previous financial year. As a result, the 2009/2010 accounts will be restated to an IFRS-compliant format once those accounts have been audited. The date of transition to IFRS, or the opening balance sheet date, is therefore 1 April 2009 (that is, the beginning of the earliest period for which full comparative information is presented in accordance with IFRS). The move to IFRS will require changes in some accounting policies and changes in presentation and disclosures in the Council's accounts.

### **3.0 Progress to date**

- 3.1 The CIPFA IFRS implementation plan (LAAP 80) was issued by CIPFA in March 2009 and outlined some of the issues and a proposed approach.
- 3.2 The key milestones in the LAAP 80 timetable were as follows:
- Initial impact assessment / train key staff: March to May 2009;
  - Identify systems and procedural changes: by end of July 2009;
  - Gather requirements to restate the opening balance sheet (as at 1 April 2009): by end of September 2009;
  - Restate opening balance sheet: by end of December 2009;

- Consider the impact on the 2010/2011 budget: by end of January 2010;
  - Restated opening balance sheet audited: by end of April 2010;
  - 2009/2010 accounts restated to IFRS: by end of December 2010;
  - 2009/2010 restated IFRS accounts audited: by end of March 2011.
- 3.3 The period from April 2011 to June 2011 will then be used to produce the first live IFRS accounts (that is, for the year ended 31 March 2011).
- 3.4 In order to identify and evaluate IFRS issues, a review has been undertaken of all currently effective IFRS accounting and reporting standards and interpretations that are appropriate to the key areas identified. The approach taken has been to produce a technical review document in respect of each of these IFRS standards, the scope of which includes the impact of classification, recognition and measurement of balance sheet items and the identification of IFRS issues, strategic choices and accounting policies. The review also takes account of CIPFA Code of Practice interpretations and adaptations of IFRS.
- 3.5 As part of this process, the international accounting and reporting standards have been prioritised as to high/ medium and low priorities and some have been excluded as 'out of scope' and not relevant to local authorities.

#### **4.0 Work carried out to date / Issues**

- 4.1 The work carried out to date has concentrated on the high/medium areas that may impact on the opening balance sheet as at 1 April 2009. These areas are common across local authorities and include property, plant and equipment, leases and employee benefits.
- 4.2 A summary of progress on the key work streams is provided below:

##### **Property, plant and equipment**

The major issue is the categorisation of properties and the application of different valuation methods, as summarised below:

**Land and buildings:** Fair value (the amount that would be paid for land and buildings in their existing use);

**Items of a specialised nature** (where no market-based evidence is available): Depreciated replacement cost;

**Council dwellings:** Existing use value – social housing

**Infrastructure assets and community assets:** Depreciated historical cost;

**Non-property assets with short useful lives and/or low values:** Depreciated historical cost;

**All other classes of property, plant and equipment:** Fair value (the amount for which an asset could be exchanged in an arms-length transaction).

The above valuation methods are incorporated into the proposed new accounting policies.

The Council's Senior Valuer has attended training courses on the different valuation methods and meetings have been held in order to establish protocol to record the process and methods to be adopted in the restatement of the 1 April 2009 balance sheet in accordance with the IFRS requirements for all land and buildings. This protocol will include investment property and properties held for sale categories.

The impact of IFRS on leases of the Council's land and buildings and leases of the Council's vehicle fleet has been dealt with by Butlers - an expert leasing organisation. They have provided guidance and details of the lease accounting adjustments necessary for IFRS migration.

A further issue relates to component accounting (that is, the separate recognition of two or more significant components of an asset whose cost is significant in relation to the total cost of that asset and where their useful lives are substantially different). However, in accordance with CIPFA Code of Practice, the requirement for component accounting is applicable from 1 April 2010 and therefore will have no impact on the opening balance sheet at 1 April 2009.

A new piece of software was purchased during the year which will enable the fixed assets to be treated correctly. Some problems were encountered during the installation of the software which has put the Authority behind schedule. It is now fully operational and the work on the fixed assets is planned for January/February 2011.

### **Investment property**

Investment property is subject to new recognition criteria.

### **Non-current assets held for sale and discontinued operations**

The new recognition criteria may impact on the Council's existing 'surplus assets held for disposal' category.

## **Leases**

The major issue is the classification of all property and non-property leases into finance leases and operating leases (that is, reflecting the purchase either of an asset or of a service). Property leases and vehicle fleet leases are included. Butlers have carried out this exercise and provided a detailed analysis of all the Authority's leases and the appropriate accounting treatment.

## **IAS 19 Employee benefits**

The major issue is the new requirement to incorporate a provision for untaken paid holiday. Information was gathered at the beginning of this financial year to be used in the preparation of the 2010/11 Statement of Accounts. Procedures are in place to gather the information at 31 March 2011.

## **Other areas**

Other areas of investigation included:

IAS 28 Investments in associates

IAS 31 Joint ventures

IAS 36 Impairment of assets

IAS 37 Provisions, contingent liabilities and contingent assets

IAS 38 Intangible assets

IAS 39 Financial instruments: Recognition and measurement

IFRS 8 Operating segments

There are not expected to be any major restatement issues in any of these areas.

## **5.0 Proposed new accounting policies**

5.1 In order to produce a restated balance sheet, a major step is to consider and present what the Council's Statement of Accounting Policies would look like under IFRS. These proposed new accounting policies were presented to members on 15 March 2010 and include the following:

- A. Employee benefits (*Retirement benefits*)
- B. Property, plant and equipment (*Tangible fixed assets*)
- C. Leases (*Leases*)
- D. Financial instruments (*Financial liabilities / Financial assets*)
- E. Investment property
- F. Intangible assets (*Intangible fixed assets*)
- G. Non-current assets held for sale
- H. Joint ventures

- I. Grants and contributions (*Government grants and contributions (Revenue) and Grants and contributions (part of Tangible fixed assets)*)
- J. Inventories (*Stocks and work in progress*)
- K. Cash and cash equivalents
- L. Revenue
- M. Provisions (*Provisions*)

## **6.0 Restated balance sheet**

- 6.1 The Council is not currently at this stage. The work is planned for January and February 2011
- 6.2 A full restated balance sheet as at 1 April 2009 will be made available for Members' consideration when completed. This will allow Members to reflect on their understanding of the IFRS changes.

## **7.0 Issues/Options for Consideration**

- 7.1 Some of the groundwork has been completed but we are now behind schedule on the production of, for example, the restated balance sheet as at 1 April 2009. We have set up the template for the 2010/2011 Statement of Accounts but have yet to restate the comparative figures. The guidance notes for the CIPFA Code of Practice on Accounting are essential to complete the work but have only just been released. We should receive the guidance later this week.
- 7.2 There is still a considerable amount of work to be done to ensure compliance with the new standards. This involves not only Financial Services but a number of other departments.
- 7.3 There is a concern about whether there are sufficient resources available, particularly within Financial Services, to be able to complete the necessary work. The Director of Resources is aware of the situation and is considering the options.

## **IMPLICATIONS**

Financial : There will be significant staff time involved in the IFRS transition process. A consultant has been used to identify the issues and produce a work plan and timetable. The cost has been contained within existing approved budgets. The restated balance sheet as at 1 April 2009 and the 2009/2010 accounts prepared in accordance with IFRS will incur external audit fees.

Legal : It is a statutory requirement for all local authority accounts to be IFRS compliant by 2010/2011. In order to achieve this, the Council will need

to revise its accounting policies, change the format of its accounts and include a significant number of additional disclosures.

Human Resources : None

### **RECOMMENDATION**

**It is recommended that the Audit Committee:**

**Note the progress made and the work outstanding on the incorporation of the International Financial Reporting Standards into the Authority's Statement of Accounts.**

ATTACHMENTS:            **Y/N**  
FILE REFERENCE:        ***please complete***  
SOURCE DOCUMENT:     ***please complete***