

Accounts, Audit and Risk Committee

Update on International Financial Reporting Standards (IFRS)

13 December 2010

Report of Head of Finance

PURPOSE OF REPORT

The purpose of this report is to provide a brief update to Councillors on the Councils progress towards IFRS and completing the 2010/11 Statement of Accounts under these new standards.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of this report and the officers' proposed actions to deal with the implementation of IFRS.

Executive Summary

1.1 Introduction

International Financial Reporting Standards (IFRS) represents a significant change in financial reporting across government and the public sector. Local authorities will have to move to accounting on an IFRS basis by 2010/11, a year after central government and the NHS.

A large volume of work was undertaken in the winter of 2009/10 and in most cases it was found that when materiality was applied, the numbers required in the accounts didn't change much. It hasn't been a fruitless exercise though as the experience gained, not only in technical accounting terms but also in sorting out the data and information needed to support the process, will serve us well in meeting the requirements for 2010/11.

Now that the 2009/10 accounts have been approved by audit, finance officers can now focus their attention on IFRS once again.

1.2 Progress since AARC 22nd September 2010

In the two months since the approval of the 2009/10 accounts, the following IFRS work has been undertaken:

- a) A draft policy on Componentisation has been completed in order to ensure compliance with IAS 16 Property, Plant & Equipment Assets. This has been sent to the Head of Estates to be reviewed and will be tested with a sample of assets in early December 2010.
- b) A draft policy for Cash & Cash Equivalents has been completed in order to ensure compliance with IAS7 Cash Flows. Once this has been formally adopted, the balance sheet can be amended.
- c) The Code of Practice on Local Authority Accounting, "The Code", has been read thoroughly and a list made of all areas of change which will need addressing at Cherwell. This list has been circulated to relevant finance officers so that they are aware of the tasks needed for transition and beyond.
- d) The balance sheets for 2008/09 and 2009/10 have been reformatted to how they need to look under IFRS. This has so far been done as an Excel exercise and this will now be fed into Agresso so that the Excellerator reports which are used for automatic reporting, give us the correct answers. There are some name changes to categories on the balance sheet and some areas look technically different.
- e) Discussions have taken place between the Technical and Management accounting teams within the Council to look at how we can produce an additional Income and Expenditure Statement for 2009/10 and going forwards, based on segmental reporting. So far this looks as if it will be a fairly easy exercise as the Council already produces a form of segmental accounts via the Dashboard.
- f) All Investment assets have been reviewed to determine if they still constitute as investment assets under the new definition. 23 of the Councils 40 investment properties (£1.7m of £29m) will have to be recategorised as Other, Land & Buildings. Supporting evidence for the Audit Commission has been produced.
- g) All assets held as 'For Sale' have been reviewed. Under the IFRS rules, an asset is only for sale if it is being, or will be being in the next 12 months, marketed for sale. As the Councils 2 assets held for sale (total value £300k) were not, they have to be moved back to Other Land & Buildings.
- h) The Technical Accountant has attended an invaluable day at the CIPFA Finance Advisory Network (FAN) event where the topic was 'IFRS Presentation & Restatement of the 2009/10 Accounts'.
- i) The Technical Accountant has represented the Council at the Northamptonshire Chief Accountants workshop which was held at South Northamptonshire District Council. Various topics were discussed including the lay-out of the new statements and the approach to the new accounting policies which will be needed.

Further to this, before the Audit Commission plan to come and do their next IFRS review in early February, the Technical Accountant has timetabled to:

- a) Complete combining the Income & Expenditure Account (Note 5.0) and Statement of Total Recognised Gains & Losses (Note 7.0) to a combined Comprehensive Income & Expenditure statement. This will initially be done in Excel for 2009/10 and then we can amend the reporting structure on Agresso.
- b) Analyse all of the grants held on our balance sheet to identify which of them

have conditions applied. Any which have conditions which have not yet been met can stay on the balance sheet, however any grants which don't have conditions attached will have to be credited to the Income & Expenditure Statement as soon as they are received.

- c) Statement of Movement on General Fund Balance (Note 6.0) needs to be changed in to a new Movement in Reserves Statement.
- d) Previous years fixed asset impairments need to be analysed to assess the reason for the impairment as this will now effect the accounting treatment and needs to be applied retrospectively.
- e) Test the new balance sheet report on Agresso for compliance.
- f) Start preparing journal entries where needed for changes to the 2009/10 accounts under IFRS.
- g) Start a review of provisions. Under IFRS they have to be analysed between those that will be needed within one year and more than one year. These are then shown in different sections of the balance sheet.
- h) The procuring of a new asset register system needs to be completed so that it can be installed in time for implementation and testing before March 2011.
- i) The work on leases which was done in the winter of 2009 needs to be reviewed and updated.

The guidance notes to accompany the Code are due for release on 17th December 2010. Once we are in receipt of these, we should have a better idea on the accounting entries needed to our accounts and also how some of the supporting notes to the accounts need to look.

A meeting of the IFRS Steering Group is planned ahead of the next Accounts, Audit & Risk committee on 19th January 2011 and will provide as a suitable follow-on from the IFRS training this evening.

Implications

Financial:	There are no financial issues arising from this report. Its publication is funded from within existing resources. Comments checked by Eric Meadows, Service Accountant 01295 221552.
Legal:	The Council must ensure its 2010/11 financial statements are prepared in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting (the Code). Comments checked by Eric Meadows, Service Accountant 01295 221552.
Risk Management:	If we fail to comply with the new standards and the Code, we may get a qualified opinion issued on our accounts. Comments checked by Eric Meadows, Service Accountant 01295 221552.

Wards Affected

All

Document Information

Appendix No	Title
None	
Background Papers	
There are no applicable background papers.	
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