

# Audit and Corporate Governance Committee Report



Listening Learning Leading

Report of Head of Finance

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To: Audit and Corporate Governance Committee

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## AGENDA ITEM NO 7

## International Financial Reporting Standards (IFRS): update on progress

### Purpose of Report

1. This report updates the committee on progress towards complying with International Financial Reporting Standards (IFRS).

### Strategic Objectives

2. Sound financial management is central to the ongoing delivery of all the council's functions and therefore underpins the achievement of all of the council's strategic objectives as set out in the corporate plan. The timely production, audit and publication of the financial statements is fundamental to sound financial management.

### Background

3. Central government requires that local government adopts IFRS for its financial statements for 2010/11, which will be presented for approval for audit to this committee in June 2011. Not only does this mean that the 2010/11 accounts must be in the new format, but the 2009/10 accounts will need to be restated under IFRS to provide the comparative information.
4. According to the audit commission:

“The transition to IFRS is very much a current issue for authorities and it is important that those bodies identify and plan for what they need to do as soon as possible. The move to IFRS does not mean wholesale change, but where changes do occur, a significant amount of work will be needed to assess the impact on the accounts. That work needs to begin now if authorities are to achieve the transition timetable”.<sup>1</sup>

5. This report discusses the transition timetable, reports on the work that officers are undertaking on IFRS, and identifies some of the key changes to the accounts under IFRS.

## **IFRS transition timetable**

6. The Chartered Institute of Public Finance and Accountancy (CIPFA), through its Local Authority Accounting Panel (LAAP), issued a bulletin, LAAP 80, entitled “Implementation of IFRS – Outline Project Plan” earlier this year. Within this bulletin a suggested timetable was included for managing the transition. The key dates from that suggested timetable were:

31 December 2009	Restate 1 April 2009 balance sheet in IFRS
31 March 2010	Audit sign off restated 1 April 2009 balance sheet
31 December 2010	Restate 2009/10 accounts in IFRS
31 March 2011	Audit sign off restated 2009/10 accounts
30 June 2011	Closedown 2010/11 accounts on IFRS basis

7. It should be noted that it is requirement of first time adoption of IFRS that the opening balance sheet of the comparative period is restated under IFRS, hence the need to restate the 1 April 2009 balance sheet. The 2010/11 accounts will have three balance sheets, dated 1 April 2009, 31 March 2010 and 31 March 2011, all on an IFRS basis.

## **Resource implications**

8. Work to date on IFRS has been limited. As the committee are aware there have been significant problems with accounts closure in recent years and resources have been focussed on getting that process back on track for the 2008/09 accounts, which was successfully achieved with the audit opinion being received on time for the first time in three years. In addition, the size of the accountancy team means that we do not have dedicated resources available to work on projects such as this. Since final accounts closure the team’s resources have been primarily directed at undertaking the budget setting process.
9. The audit commission recently undertook a survey of all local authorities to determine the extent of their preparations. The limited work undertaken to date by this council was reported in that survey, the findings of which have yet to be reported by the commission.
10. To assist with the potential workload on IFRS, two growth bids have been submitted for consideration as part of the 2010/11 budget setting process. The

<sup>1</sup> “Managing the transition to IFRS: local government IFRS briefing paper 3”, Audit Commission, 2009

first is a one-off growth bid for £20,000 for additional support to the accountancy team during 2010/11. The second is a capital growth bid for an asset accounting system. The committee will recall that officers have previously reported their concerns regarding the ongoing suitability of spreadsheet records for the council's fixed assets, and the additional burdens in this area that IFRS will impose.

## **Work undertaken on IFRS**

11. The work that officers have been able to undertake thus far on IFRS has been focussed primarily on the impact of IFRS on the balance sheet, as restating the opening 1 April 2009 balance sheet is the first major transition task. The chief accountant recently attended a course on undertaking this first stage, and has fed back from this course to staff and managers.
12. Based on the work to date, officers feel that they are unable to meet the suggested timetable for restating the opening balance sheet, and 31 March 2010 is considered a more reasonable target to aim for. Officers will therefore be speaking to the auditors to discuss a revised date for auditing the restated 1 April 2009 balance sheet.
13. To facilitate achievement of the revised deadline, and to facilitate management of the remainder of the IFRS transition process, a detailed project plan will be drawn up. This will be discussed with the auditors, and the plan, together with the outcome of the discussions with the auditors, will be reported to the next meeting of this committee.
14. The accountancy teams of both this council and Vale of White Horse District Council will be working closely on the transition to IFRS. In addition, officers from all the Oxfordshire district councils, together with their counterparts from Oxfordshire County Council and Thames Valley Police, are meeting on a regular basis to discuss issues arising from the transition. Working with other councils in this way will assist the council in its implementation work.

## **Significant changes to the accounts**

15. Detailed guidance from CIPFA on the new IFRS based accounting code of practice is still to be made available. However, it is already clear where some of the most significant changes to the accounts – especially the balance sheet and its accompanying notes as that is the first area to be restated – are going to take place. The main changes affecting the balance sheet are as follows:
  - Fixed asset classification and valuation
  - Leases
  - Employee benefits
  - Capital grants and contributions
16. In addition, IFRS contains significant additional disclosure requirements over and above those already required. Until the guidance is available it is difficult to assess the impact of these. Officers from the accountancy team will be attending further training on the accounting requirements early in the new year, and an update on this will be provided to the committee at the next meeting.

## **Risks**

17. The extent of the changes to the accounts means that there is a heightened risk of errors, in terms of both misstatement and omission, being included in the statement of accounts. Also, it is likely that guidance on IFRS will evolve and change over time. Should guidance change significantly this could lead to some tasks having to be redone. Further, there is a risk that officers currently working on IFRS may leave the council during the transition period, which could leave the council's preparations exposed.

## **Financial Implications**

18. These are discussed in paragraph ten of this report.

## **Legal Implications**

19. None.

## **Human Resource Implications**

20. None.

## **Sustainability Implications**

21. None.

## **Conclusion**

22. The transition to IFRS will be a significant challenge for all councils in the next eighteen months. This council is now beginning to look in detail at the challenges it faces from this process, and to plan for making the transition successfully. The committee will continue to receive regular updates on progress.