

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

**28th SEPTEMBER 2009**

**PREPARING FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

**1. SUMMARY**

1.1 To inform members of the impending introduction of International Financial Reporting Standards to Local Authorities. This report also highlights the likely timeframes for introduction and the possible impact this may have on resources.

**2. RECOMMENDATION**

2.1 That the Council's preparations for the introduction of International Financial Reporting Standards are noted; and

2.2 That the proposed approach to progress the introduction of International Financial Reporting Standards, outlined in Appendix A, be approved.

**3. BACKGROUND**

3.1 The annual financial statements for this council and all other local authority entities are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UKGAAP).

3.2 In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, local government bodies are to move to preparing their financial statements using International Financial Reporting Standards (IFRS). These standards will be adapted as necessary for the public sector.

3.3 Full adoption of the IFRS-based local authority accounts is for financial year 2010/11, with the Council's statement of Accounts prepared in full compliance with IFRS's including the restatement of the 2009/10 comparative figures.

3.4 Compliance with UK GAAP in public sector accounts is achieved through the application of the "Code of Practice in Local Authority Accounting in Great Britain – A Statement of Recommended Practice (the SORP), published annually by the Chartered Institute of Public Finance and Accountancy (CIPFA). The guidance within this document is the cornerstone that underpins the production of the Council's financial statements.

- 3.5 An initial comparative analyses between the latest SORP and IFRS's suggest that there are a substantial number of differences. This analysis has identified that there will be increased disclosure requirements that will impact the financial statements and some issues that will impact beyond the finance department.
- 3.6 Both the Council's Head of Financial Services and the Audit Board have a key role in ensuring the successful introduction of IFRS's. In particular, the Head of Financial Services has responsibility for overseeing the introduction of IFRS compliant financial statements, whilst the Audit Board must be satisfied that this is happening in good time.

#### **4. KEY AREAS OF CHANGE**

- 4.1 Application of IFRS will have a significant impact on the accounts, for example:
- Format and content of accounts
  - Accounting Policies
  - Valuation and depreciation of fixed assets
  - Classification and valuation of leases
  - Employee benefits – accounting for outstanding annual leave and flexi-leave at the year-end.
- 4.2 The first full set of IFRS compliant accounts will be published by the Council for the financial year 2010/11. This in turn will require the restatement of the 2009/10 accounts in IFRS format.
- 4.3 Some work in connection with this timetable is already underway but has been limited due to the focus of work in other areas such as the production of the 2008/09 final accounts. Work over the coming weeks will be accelerated to ensure the timetable is on track to maintain as smooth as possible a transition to the implementation of IFRS.
- 4.4 Officers are in liaison, via working groups set up by the Hereford and Worcestershire Finance Managers Group with colleagues at other local councils to share information and advice on IFRS. A watching brief will be maintained of the CIPFA Website to ensure information is obtained on the accounting code of practice and other future developments. Ongoing discussions will be held with the external auditors to inform them of the project plan, approaches being taken and to raise any issues with them as they arise.

#### **5. KEY ACTIONS TO BE TAKEN**

- 5.1 Although the council's 2010/11 accounts will be the first to be prepared on an IFRS basis, there will be a number of key tasks to be undertaken prior to that time. These include:
- Restating the 2009/10 accounts on an IFRS basis;
  - The opening balances at 1 April 2009 will need to be on an IFRS basis;
  - Whole of Government Accounts (WGA) will be on an IFRS basis from 2009/10;

- The impact on budgets, the council tax, our systems and staff training are all areas which need to be considered; and
- Ensuring the Council's financial system is configured to support the transition to IFRS based accounting.

5.2 It is important that we engage with our external auditors throughout the transition period in order to establish any audit trail or working paper expectations, materiality considerations, preliminary views on accounting treatment, audit timetable and arrangements for ongoing communication. It is also recognised that in the private sector, introduction of IFRS was most successful where functions other than finance were also involved such as procurement, IT and Human Resources.

5.3 Officers have attended a number of seminars and are of members of Countywide working groups to assess the impact of the introduction of IFRS. It is envisaged that further seminars will be attended over the coming months as further clarification of its application is given.

## **6. FINANCIAL IMPLICATIONS**

6.1 None outside existing budgets.

## **7. LEGAL IMPLICATIONS**

7.1 The Council has a statutory obligation to produce its Statement of Accounts, income and expenditure and record of receipts and payments each year under the Accounts and Audit Regulations 2003 (as amended 2006).

## **8. COUNCIL OBJECTIVES**

8.1 Council Objective 02: Improvement.

## **9. RISK MANAGEMENT**

The main risk associated with the details included in this report is the non-compliance with statutory requirements. This issue is addressed as part of the Financial Services Risk Register and the action plan and delivery of such will mitigate the risks associated with the non compliance of requirements.

## **10. CUSTOMER IMPLICATIONS**

10.1 No customer implications.

## **11. EQUALITIES AND DIVERSITY IMPLICATIONS**

11.1 No equalities and diversity issues.

## **12. VALUE FOR MONEY IMPLICATIONS**

12.1 None.

### 13. **OTHER IMPLICATIONS**

Procurement Issues: None
Personnel Implications: None
Governance/Performance Management: Effective governance process.
Community Safety including Section 17 of Crime and Disorder Act 1998: None
Policy: None
Environmental: None

### 14. **OTHERS CONSULTED ON THE REPORT**

Portfolio Holder	Yes
Chief Executive	No
Corporate Director (Services)	Yes
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal, Equalities & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

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**15. WARDS AFFECTED**

15.1 All Wards are affected.

**16. APPENDICES**

16.1 Appendix A – Outline Project Plan.

**17. BACKGROUND PAPERS**

17.1 None.

**CONTACT OFFICER**

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