

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

**15TH MARCH 2010**

**UPDATE ON THE PREPARATION 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 current position of this Council with regard to the transition to International Financial Reporting Standards (IFRS).

**2. RECOMMENDATION**

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

**3. BACKGROUND**

3.1 The Audit Board is an important part of Corporate Governance being a key source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on financial and non-financial performance. As part of this function the Audit Board should be aware of the requirements of IFRS to ensure that the transition project is given suitable corporate priority.

A failure to achieve successful transition to IFRS would cause significant reputational damage to the Council, and will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion.

3.2 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(UK GAAP).

3.3 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.

- 3.4 The 2010/11 financial year will be the first year for IFRS based local authority accounts, but prior to that date preparation is required for transition to this new basis, this includes the restatement of the 2009/10 comparative figures.
- 3.5 Even though IFRS is to be effectively implemented in the 2010/11 financial year there will be a stepped transition to the production of the council's statement of accounts on a solely IFRS basis. There are three key stages in this transition:
- Restate the opening balance sheet as at 1 April 2009 to comply with IFRS.
  - Prepare the accounts for the 2009/10 financial year in accordance with UK GAAP and also restate these accounts to comply with IFRS meaning that the 2009/10 financial statements will be prepared in both UK GAAP and IFRS formats.
  - Prepare the 2010/11 financial statements on an IFRS basis only.

#### 4. CURRENT POSITION

- 4.1 Consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (Based on IFRS) concluded in September 2009. The final version of this Code has recently been made available.
- 4.2 A number of the initial tasks have been carried out such as training and attendance at seminars and working groups. Work on this project is now accelerating to ensure compliance with accounting requirements.
- 4.3 Key staff that have input into the transition have been identified and inevitably centre around the Finance Section, but the Council's Valuation Service have been consulted on offering assistance with Property and Lease Valuations. Where required guidance/support has been sought from outside the Council, where possible this has been done through the Hereford and Worcester Finance Managers Group, but in addition KPMG are offering advice on IFRS through a joint purchasing arrangement with Redditch.
- 4.4 Work is underway on the translation of the opening balance sheet (1/4/09), this includes a review of the accounting treatment of the Fixed Assets and leases -, additional guidance has been sought on their valuation and accounting treatment from both the County Valuation Service and Grant Thornton.
- 4.5 The Finance Section through the Finance Managers Group has carried out an impact assessment, comparing current accounting standards to those proposed under IFRS.

The table below summarises the areas where the most impact is anticipated and outlines the progress made to date:

Area of Impact	Progress to Date
Property Plant & Equipment	An exercise is underway to reclassify all operating and non-operating assets under IFRS definitions (as opposed to UK GAPP definitions as at present)

	Advice is being sought from the Valuation Service as to the method of valuation to be used for each class of asset.
Leases	Lease information has been obtained and classification of these leases as finance or operating leases is being sought from external sources.
Payroll	Under IFRS employee benefits such as untaken annual leave and flexitime, at the end of the financial year must be accounted for. Work has already been undertaken in this area for the opening balance as at the 1 April 2009 in preparation of the comparatives that will be required.
First-time adoption of IFRS	The opening balance sheet as at 1 <sup>st</sup> April 2009 needs to be restated. This exercise has begun but we are awaiting the conclusion of work on leases
Changes required to accounting policies and disclosure	Work is underway at this time to review the accounts and the IFRS requirements to determine the amendments that are needed to this area of the accounts.

## 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, the Audit Commission 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.
- 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 risks associated with the details included in this report is the non-compliance with statutory 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	No
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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

**15. WARDS AFFECTED**

15.1 All Wards are affected.

**16. APPENDICES**

None.

**17. BACKGROUND PAPERS**

17.1 None.

**CONTACT OFFICER**

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