REPORT NO: 59/2011

AUDIT & RISK COMMITTEE

22nd March 2011

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Report of the Strategic Director for Resources

STRATEGIC AIM	**To be a well managed organisation**

1. PURPOSE OF REPORT

1.1 To inform the Committee of progress on the implementation of IFRS, and to highlight key differences between IFRS and UK GAAP (Generally accepted accounting principles) accounting.

2. RECOMMENDATIONS

2.1 That the requirements and implications of IFRS be noted.

3. REASON FOR THE RECOMMENDATIONS

3.1 In the 2007 Budget the Government announced that in future the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector. This was done in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.

3.2 From 2010/11, the Council's Statement of Accounts must be prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Code for IFRS, which was published in December 2009. The 2010/11 accounts must include comparator figures for 2009/10 on an IFRS basis.

4. MAIN AREAS OF CHANGE

4.1 The Key differences are as follows:

- Employee benefits

(a) Under IFRS the Council must calculate and account for the value of untaken leave and time owed in lieu at year end, and include this sum as a creditor in the accounts, since technically the amounts are owed to employees at the year end. This has been done for 31st March 2009 to enable the 2009-10 accounts to be restated on an IFRS basis. The cost of this was £374,000 as at March 2009

- Leases

The Council as Lessor (Landlord)

Under UK GAAP, where the Council granted a long lease, the value of the land and buildings was removed from the Council's balance sheet. In future the land element of any long lease will normally always remain on the balance sheet. A number of pieces of land have now been shown on the Council's balance sheet.

The Council as Lessee (Tenant)

In a similar manner to above, where the council enters into a long lease as a tenant, the land value must not be shown on the Council's balance sheet. A number of pieces of land have been removed.

- Property Plant and Equipment

A number of assets, which have not been previously shown on the Council's balance sheet have been identified, they have now been included within property plant and equipment at their current value.

- Lease Incentive

A £675,000 lease incentive was received in 2007/08 which was shown as income in the 2007/08 financial statements. IFRS requires that any income received in relation to the signing of a lease, must be spread over the term of the lease. The receipt was included in the Capital Receipts Reserve. Work is underway to determine the full impact on the Capital Accounts.

- Voluntary Aided, Voluntary Controlled, and Foundation Schools

In 2007/08 the Council removed assets belonging to Voluntary Aided, Voluntary Controlled, and Foundation Schools from its balance sheet. Under IFRS these assets will need to be re-instated. IFRS considers that where the Council "controls" an asset by virtue of the fact that it provides substantially all the funding, then it is appropriate to show the assets on the Council's balance sheet. Any schools attaining Academy status in the future will no longer be considered as Council assets as they are wholly outside of the Authority's control.

- Segmental Reporting

IFRS requires that the Council discloses within its financial statements the same analysis of expenditure, together with assets and liabilities, which the Chief Executive receives on a monthly basis. The following sub-analysis of income and expenditure will therefore be disclosed:
- Chief Executive
- Strategic Director for People
- Strategic Director for Places
- Strategic Director for Resources

- \- Disclosure Notes to the Accounts

The IFRS disclosure notes require a considerable amount of additional information, this information will also be required for 2009/10 comparable numbers

5. OTHER POTENTIAL AREAS OF CHANGE

5.1 The Other areas which currently do not affect the Council, but may/will in the future are:

- Group Accounts

IFRS requires that an entity should be included within group accounts if the Council has the power to influence another entity (rather than to actually exercise it, which is the current test). No entities have been found, which meets this ability to influence criteria, however a number of other Councils have leisure contracts which meet this criteria, and therefore this may become an issue in the future.

- Embedded Leases

IFRS changes the definition of a lease. Under the new rules any asset which is owned by a 3rd party, but is controlled by the Council, may have to be recorded as either a finance or operating lease. The Council has introduced check sheets in order to identify any potentially leases prior to contracts being signed

- Embedded Derivatives

An embedded derivative is a clause in a contract which varies the price by reference to some form of indices (e.g. RPI). Where a derivative is found, the Council is required under certain circumstances to account for any losses on the derivative separately to the underlying contract. The Council has introduced check sheets in order to identify any potentially derivatives prior to contracts being signed

- PFI/PPP Schemes

Under UK GAAP PFI/PPP schemes were considered to be “off-balance sheet” financing transactions, under IFRS they will always be on balance sheet. On balance sheet PFI/PPP schemes are more expensive in the early years of the lease. The Council does not currently have any PFI/PPP schemes

- Impairment of assets

IFRS requires that the Council considers indicators of impairment at each and every balance sheet date. Currently the Council considers impairments as at 1st April each year, this will not be sufficient under IFRS, and the Council will need to either move the impairment review to the 31st March each year, or consider undertaking 2 impairment reviews each year.

6. NEXT STAGES

6.1 The Council has now completed the conversion of its “transition” balance sheet. This now becomes the starting point for restating the first years (2009/10) income and expenditure account and balance sheet, which will be used as comparative information for the first full IFRS accounts which will be published for 2010/11.

6.2 The next stage is to convert the 2009/10 UK GAAP accounts to IFRS, using the transition balance sheet which has been completed. This work is currently underway.

6.3 After the 2009/10 accounts have been converted to IFRS, the Council's accounting system needs to be updated to reflect the new IFRS financial position. At the same time the 2010/11 budget will need to be updated to reflect IFRS changes

6.4 All finance staff and Budget Managers will need to be trained on the new accounting requirements. Some work has already been carried out, and plans are being made to ensure that all staff involved are fully aware of the requirements.

7. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	**High**	**The 2010/11 Accounts must be IFRS compliant**
Viability	**Med**	**A considerable amount of work has already been completed, the remainder of the transitional work will be completed within the existing resources available.**
Finance	**Low**	**The work required will not impact on the existing budget and will ensure that accounting practices are transparent and compliant with current legislation.**
Profile	**Med**	**This is a statutory requirement. The restatement of the 2009/10 Balance Sheet must be completed for audit purposes by 30th June 2011.**
Equality and Diversity	**Low**	**Initial Equality Impact Assessment completed, there are no particular issues in this area.**

Background Papers

Report Author
Sharon Dring

Tel No: (01572) 722577
e-mail: enquiries@rutland.gov.uk

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.