WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to inform Members of the implications of the full introduction of International Financial Report Standards (IFRS).

1.2. This Committee is responsible for Governance and for the approval of the Statement of Accounts. It is important for Members to understand how IFRS will impact on the Council, especially as the preparation of financial statements must be in accordance with statutory requirements and timescales.

1.3 The changes required to implement IFRS are largely around how items are accounted for and presented in the Statement of Accounts. Members should request any further information required to help understand what is going to take place. I am keen to widen understanding of a number of technical accounting changes to the published Statements of Account.

2. BACKGROUND INFORMATION

2.1 The 2007 Budget announced the introduction of IFRS based financial reporting for the government and the public sector from 2008/09. The Government and the NHS were required to adopt IFRS for their 2009/10 accounts. The adoption by Local Government is required for the 2010/11 accounts.

2.2 The main reason for the change to IFRS is to bring consistency and comparability in both the private and public sectors throughout the world. The private sector has been using IFRS since 2005.

2.3 Under the Accounts and Audit (England) Regulations 2003 (as amended) the Council's published accounts must comply with proper practice. For the Statement of Accounts 2009/10 proper practice was the Local Authority Statement of Recommended Practice (SORP). For the Statement of Accounts 2010/11 proper practice will be the Code of Practice on Local Authority Accounting. This Code complies with IFRS. It is therefore a statutory requirement on all Councils to adopt these standards.

3. IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

3.1 The impact of much of IFRS will be presentational with new terminology and new statements being introduced and a significant increase in the number of notes in the Statement of Accounts. There are however a small number of areas which will change significantly. These involve changing systems and processes, and the basis of recording certain accounting transactions. An impact assessment gives a summary of the significant effects of IFRS for the Council.

3.2. Impact Assessment

Significant Change

Area of Change	Details of Key Change	Relevant Standard
Fixed Assets	All fixed assets to be assessed against the Standards. Changes include component accounting, annual impairment reviews, recognition of a wider range of intangible assets, new definitions for assets held for sale and investment properties.	**IAS 16 – Property Plant & Equipment** **IAS 36 – Impairment of Assets** **IAS 38 –Intangible Assets** **IAS 40 – Investment Property** **IFRS 5 – Assets held of Sale**
Leases	A new method of assessing finance and operating leases. Identification of assets used by contractors to provide services.	**IAS 17** **IFRIC 4** **IFRIC 12**
Segmental Reporting	Introduction of an additional analysis of income and expenditure based on the operational organisation of the Council.	**IFRS 8**
First Time Adoption	Requirement to demonstrate the conversion of existing accounts to the new basis, including the restatement of 2009/10	**IFRS 1**

Medium Change

Area of Change	Details of Key Change	Relevant Standard
Accounting Policies	Revision to some current policies to comply with new reporting standards	**IAS 8**

Presentation of Financial Statements/Increased Disclosures	Substantial changes to the main accounting statements and a larger number of notes to the accounts.	**IAS 1**
Employee Benefits	Conversion of employee benefits such as leave into monetary value as at each 31 March.	**IAS 19**
Cash Flow Statement	The identification of new categories of cash equivalents.	**IAS 7**
Related Party Disclosures	Greater information on related parties required in the Statements.	**IAS 24**
Government and Non Government Grants	Once the grant conditions are met they are recognised in the Income and Expenditure Account.	**IAS 20**

Minor Change

Area of Change	**Details of Key Change**	**Relevant Standard**
Inventories	Measurement at either lower of cost or net realisable value.	**IAS 2**

3.3 Effect on the Statement of Accounts

3.3.1 Although IFRS will be implemented in full for 2010-11, there is a need to include comparative information for 2009-10 in the first IFRS based statements of accounts. This means that the accounts for 2009-10 approved on 28 September 2010 by the Committee will have to be recalculated. This is called restating. This will mean, for example, that accruals for untaken annual leave will need to be calculated at 31 March 2009 in order to provide an opening figure at 1 April 2009 to enable the 2009-10 accounts to be restated on an IFRS basis. Another key principle is that retrospective changes are required to leases and asset valuations to restate them on an IFRS basis to ensure full IFRS compliance.

3.3.2 The main financial statements under IFRS are as follows:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Accounts

4. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1 The implementation of IFRS requires the Council to ensure that the accounting and other systems are set up to supply information required to produce IFRS compliant accounts. All IFRS standards and regulations must be fully understood and interpreted. This is to ensure that they can be complied with in the correct manner and to minimize external audit challenge of the accounts. The key aspect of implementation is to produce a Statement of Accounts for the year ending 31 March 2011, with compliant comparatives. There will also be a need to give further training and guidance to both officers and Members.

4.2 Work has commenced on the conversion to IFRS. A Project Team has been formed. Due to final accounts and the commencement of the budget process in recent months progress has been limited. However, progress has been made in the following areas:

Impact assessment of relevant standards
All IFRS standards have been reviewed. An assessment of those standards that will have the greatest effect upon the Council has been made, from which a project plan has been developed to direct the work required. It has also driven the focus of work on fixed assets, leases and re-formatting the statement of accounts.

Fixed Assets
A new asset accounting system has been implemented. This is IFRS compliant and will enable the required information to be held. Further work has been completed to investment properties and assets for sale.

First Time Adoption
Work has commenced on the conversion of the Statement of Accounts 2009/10 to the IFRS compliant format statements.

Segmental Reporting
Work has been undertaken to reconcile budget monitoring information to the annual published information.

Leasing
Existing operating leases have been assessed against the new standards. Contracts that involve the use of an asset have been identified. The next stage is to determine the value of these assets.

Employee Benefits
The pay accrual for teachers has been calculated. For non-teaching staff a sample has been constructed. The next stage will be to use this to obtain holiday information for this group of staff.

4.3 It is anticipated that a restated balance sheet will be calculated by 31 December 2010. The intention is to present this and an update on progress to the Committee on 17 January 2011.

5 FINANCIAL AND STAFFING IMPLICATIONS

5.1 At this stage the implementation is being managed within existing staffing resources. However the degree of work and capacity in Financial Services, Human Resources and Asset Management is being kept under review.

6. EQUAL OPPORTUNITIES IMPLICATIONS

6.1. There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1. There are none arising directly from this report.

8 COMMUNITY SAFETY IMPLICATIONS

8.1. There are no specific implications arising from this report.

9. LOCAL MEMBERS SUPPORT IMPLICATIONS

9.1. There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1. There are none arising directly from this report.

11. PLANNING IMPLICATIONS

11.1. There are none arising from this report.

12. BACKGROUND PAPERS

12.1. Audit Commission Briefing Papers –

- IFRS – Reporting on operating segments
- IFRS – Progress on the transition to IFRS
- IFRS – Accounting for employee benefits
- IFRS – Practical implications of restating non-current assets
- IFRS – A Guide for senior managers and Members
- IFRS – Accounting for non-current assets
- IFRS – Identifying and accounting for leases

12.2 Chartered Institute of Public Finance and Accountancy – Code of Practice on Local Authority Accounting

13. RECOMMENDATIONS

13.1 That the Committee notes the implications for the Council of the introduction of International Financial Reporting Standards.

13.2 That the progress made on the implementation of IFRS be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

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