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**Meeting:** Audit Committee  
**Date:** 27 January 2011  
**Subject:** IFRS Progress  
**Report of:** Assistant Director - Finance  
**Summary:** The report provides information on progress made to date in the response to the International Financial Reporting Standards.

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Contact Officer: Adrian King, Head of Financial Strategy  
Public/Exempt: Public  
Wards Affected: All  
Function of: Council

#### **CORPORATE IMPLICATIONS**

**Council Priorities:**

The production of robust financial accounting information directly contributes to the authority's ability to meet its priorities.

**Financial:**

Financial impacts are anticipated through the adoption of IFRS requirements. These are set out in the report.

**Legal:**

None

**Risk Management:**

None

**Staffing (including Trades Unions):**

None

**Equalities/Human Rights:**

None

**Community Safety:**

None

**Sustainability:**

None

**RECOMMENDATION(S):**

1. that the

**Committee note the contents of the report**

**Background**

1. The authority is required to compile its Statement of Accounts for 2010/11 using International Financial Reporting Standards (IFRS), rather than the UK Generally Accepted Accounting Practice. The adoption of IFRS also requires the authority to restate its previously reported opening balances as at 31 March 2009 and 31 March 2010.
2. Adoption of IFRS requires the authority to undertake a fundamental review of its accounting practices in order that it is able to successfully complete the transition to presenting IFRS compliant accounts at the June Audit Committee.

**IFRS Review Project**

3. The authority has undertaken a fundamental review of the IFRS accounting requirements to understand and plan for any required changes against existing accounting policies and practices. This review identified 19 workstreams for further evaluation. All work is scheduled to be completed by the end of January 2011 to allow External Audit to review at the earliest opportunity and in advance of the end of the financial year.
4. The main outputs from the IFRS Review Project have been identified as follows:

| <b>Output</b>  | <b>Timescale</b>  |
|--|-------------------|
| Draft Format of Key Financial Statements (excluding figures) | End December 2010 |
| Review of the Individual IFRS Workstreams concluded          | End January 2011  |
| Restated Opening Balance Sheet Produced                      | End January 2011  |
| Draft Statement of Accounting Policies                       | End January 2011  |

5. It is important that the external auditors are fully informed of progress in the IFRS transition process and are aware of the potential changes emerging from the 19 workstreams described in the report. To ensure that this objective is met there are fortnightly progress updates provided to the Audit Commission. Regular meetings are also taking place to discuss developments in further detail. In addition, the output from the workstreams, that have been completed to date, are being made available to the Audit Commission for early evaluation.

### **Progress Against IFRS Workstreams**

6. The 19 workstreams and their completion status are set out at **Appendix A**. As at 31 December 2010, 15 of the 19 workstreams (79%) have been completed
7. **Appendix B** provides a detailed update on the progress made against all the individual workstreams.
8. The key pieces of work to be completed are in respect of accounting requirements in respect of Plant, Property and Equipment and Accounting for Leases. These will be completed by 31 January 2011.

### **Restated Opening Balance Sheet**

9. The review of the individual workstreams has resulted in changes to the authority's opening balance sheet position. Transition to IFRS requires the balances reported under SORP requirements as at 31 March 2009 and 31 March 2010 to be retrospectively amended. The changes are due to amendments to format, classification or directly result from new accounting arrangements. The main changes emerging from the review are:
  - the reclassification of Short Term Investments to cash (now recognised as a cash equivalent),
  - the reclassification of Government Grants and Contributions deferred to the Capital Adjustment Account as these are now recognised for funding purposes,
  - reclassification of Provisions between Current and Long Term Liabilities,
  - creation of Provision and Compensated Absences Account that reflects accrued employee benefits.
10. These amendments are shown in **Appendix C** to the report and sets out the conversion from the balance sheet produced under SORP to IFRS requirements. The appendix includes the adjustments required in respect of the 15 workstreams that have been concluded as at 31 December 2010. It is expected that the review of the remaining four workstreams will be concluded by 31 January 2011. It is expected that the review of Property, Plant and Equipment and Leases workstreams will result in adjustments to the presentation of the balance sheet.

### **Draft Format of Key Financial Statements**

11. The review of the IFRS annual accounts reporting requirements has been finalised. This includes the additional and revised notes to the accounts as well as the revised core financial statements. The revised core financial statements are attached at **Appendix D** to the report.

The main changes emerging from the review are the introduction of the Movements in Reserves schedule that outlines the usable and unusable reserves that are set out in the balance sheet. This will provide a clearer picture of the levels of balances that can be utilised by an authority and these will be separated from the reserve balances that have been created due to technical accounting adjustments.

Included within the Movements in Reserve schedule are the reversals of various entries within the Comprehensive Income and Expenditure Statement that should be excluded to remove their impact on general fund balances (shown as Adjustments between Accounting and Funding Basis Under Regulatory Requirements). These entries were previously set out in the Statement of Movement in General Fund Balance statement that has now been removed. Examples of entries within this statement included the reversal of depreciation and pension adjustments required under FRS17.

### **Draft Statement of Accounting Policies**

12. The adoption of IFRS requires the authority to produce and implement revised Statement of Accounting Policies. The review of the policies is taking place in parallel to the IFRS workstreams exercise. It is expected that the revised Draft Statement of Accounting Policies will be completed by 31 January 2011.

### **Conclusion**

13. Significant progress is being made in managing the transition to the IFRS accounting requirements. It is expected that all review work will be completed by the end of January 2011 and is being made available to the Audit Commission to allow early audit work to be undertaken. This will provide a substantial benefit reducing the workload in the preparation of the annual accounts.

### **Background Papers: (open to public inspection)**

None