

Progress report on the implementation of International Financial Reporting Standards for the accounts of the County Council

27th June 2011

1. Executive Summary

- 1.1 Local Authorities are required to adopt International Financial Reporting Standards (IFRS) from 2010/11 onwards. Although IFRS is fully implemented from 1 April 2010, the transition date is 1 April 2009. The transition process from current financial reporting standards to IFRS has had a significant impact on the accounts of the County Council; therefore a project plan was put in place to ensure a successful transition and to maintain both the quality and integrity of the County Council's accounts.
- 1.2 This report summarises the Council's approach to the implementation of the new standards and provides assurance that the necessary action has been taken for their successful integration in to the 2010/11 closure process.

2. Background

- 2.1 Local Authorities were previously required to prepare their annual Statement of Accounts in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).
- 2.2 In the 2008 Pre Budget Report it was announced that Local Government must implement IFRS from 2010/11 onwards. The aim of the change in financial reporting standards is to bring comparability and consistency between financial reports in the global economy and to follow private sector best practice.
- 2.3 As part of the 2010/11 Statement of Accounts process Local Authorities are required to fully re-state their 2009/10 UK GAAP accounts under IFRS.
- 2.4 Central Government and NHS had an earlier implementation date of 2009/10, therefore Local Authorities can learn from both their successes and the challenges faced during the transition process.

3. Delivering the adoption of IFRS

- 3.1 The IFRS Project Group was set up in November 2009 to drive the implementation of the new standards across the council.
- 3.2 The group developed an action plan and timetable to deliver IFRS and then reported on progress regularly to the Audit Committee.

Appendix A

- 3.3 As part of the 2010/11 Statement of Accounts process Local Authorities are required to fully re-state their 2009/10 UK GAAP accounts under IFRS. This has meant the examination of data not only for 2009/10 but for 2008/09 and prior years to determine the correct accounting treatment of a number of elements.
- 3.5 Previous reports to the committee have detailed the key issues that have been dealt with through the project and shown how the Council's resources have been utilised to deliver the required results. The major areas of work undertaken include:
- Examination of all leases held by the Council and assessment of their accounting treatment
 - Analysis of all contracts held by the Council to determine if they contained any embedded leases
 - Reclassification of the Council's Fixed assets where appropriate under IFRS
 - Consideration of the components of fixed assets and their treatment
 - Analysis of employee benefits to meet the reporting requirements under IFRS
- 3.6 As reported previously to the committee a number of these areas of work required a significant level of resource to deliver the information required. The majority of the action required was 'backward facing' to provide the base information in 2008/09 and 2009/10 so that the 2010/11 accounts were being compared to previously periods consistently.
- 3.7 As a result of this processes have now been put in place to ensure the data continues to be collected as part of normal procedures thus ensuring a effective and efficient process in future years.
- 3.8 The final restatement of the 2009/10 accounts under IFRS has been provided to the Council's auditors and feedback has been positive based on the work submitted.
- 3.9 The 2010/11 draft statement of account have now been prepared in accordance with IFRS requirements, and together with the restatement of the 2009/10 accounts will be formally considered as part of the 2010/11 audit, the findings of which will be reported back to the committee in September.
- 3.10 The indications from the feedback received to date indicate that there should not be any significant issues arising due to the implementation of IFRS, however, as previously reported to the committee it is expected that there will be a greater number of minor issues arising from the audit. This is not

unexpected as there has been, and continues to be, a significant amount of discussion over the interpretation of the standards on a national scale which will lead to some disparity in treatment by different organisations. This type of issue may well be borne out in the report we ultimately receive.

- 3.11 This year's audit report will therefore provide valuable guidance for the production of the accounts in future years, and the advice received will enable any queries raised to be dealt with in future periods.

4. Summary

- 4.1 Through the action of the project group and the determination of a detailed project plan, the Council has met its requirements in the restatement of its 2009/10 accounts under IFRS as part of the preparation of the 2010/11 accounts and has produced the 2010/11 accounts themselves in accordance with the new standards.
- 4.2 Regular contact with, and advice from, the Audit Commission has provided invaluable assistance in achieving this.
- 4.3 The processes developed to obtain information that informed the production of transitional IFRS accounts have been embedded in the standard processes of the Council to provide such information on an on-going basis in the future.
- 4.4 Whilst we are confident that there will be only be issues of an immaterial level identified when the accounts are audited under IFRS it is important to state that it is expected there will be more in number than in previous years. This is considered to be an opportunity as the identification of such issues will enable the Council to develop its processes in the production of the accounts in future years so that they are minimised.
- 4.5 The outcome of the Audit of the Council's accounts will be reported back to the Committee in September including an assessment of the Council's delivery of its transitional IFRS accounts.