

Taunton Deane Borough Council

Corporate Governance Committee – 14 March 2011

International Financial Reporting Standards Update

Report of the Financial Services Manager

(This matter is the responsibility of Executive Councillor Williams)

1. Executive Summary

- 1.1. The purpose of this report is to inform the Committee of the progress being made on the implementation of International Financial Reporting Standards (IFRS). This relates to changes to the technical accounting rules that the Council uses for its financial reporting, and are being implemented for the 2010/11 Statement of Accounts.
- 1.2. The transition to IFRS requires a number of changes to be made to the recording of costs, income, assets and liabilities in the Council's financial statements. This requires a significant amount of work to be undertaken, predominantly by Southwest One finance and property teams, to implement.
- 1.3. This report aims to provide assurance to Members that officers are working through the required changes and expect to successfully implement the required changes on time for the approval of the 2010/11 Statement of Accounts.

2. Background

- 2.1. International Financial Reporting Standards (IFRS) are the accounting standards issued by the International Accounting Standards Board. These replace UK GAAP standards, which is the set of 'Generally Accepted Accounting Principles' under which the Council meets its statutory obligations in the preparation of its financial statements.
- 2.2. The "International Financial Reporting Standards" report to Corporate Governance Committee in May 2011 provided background information on the impact of IFRS, and highlighted that the most significant areas of change are:
 - Accounting policies
 - Format of the main Financial Statements and supporting Notes
 - Accounting for leases
 - Accounting for fixed assets, including component accounting
 - Accounting for Employee Benefits
 - Segmental reporting
 - Group Accounts

- 2.3. It is a statutory requirement for all local authorities to report on an IFRS basis from 2010/11. This will include the restatement of 2009/10 accounts for comparative purposes.
- 2.4. CIPFA/LASAAC issued transitional guidance around 18 months ago. This provided finance officers with an overview of the implications of IFRS, and enabled an early assessment of its impact. Since that time, some initial areas of uncertainty have been consulted upon and clarified by CIPFA, and this resulted in the formal publication of the Code of Practice on Local Authority Accounting ('the Code'). This is supported by detailed Guidance for Practitioners ('Code Guidance') which was received in January 2011.

3. Implementation Progress Update

- 3.1. The Council initially set an implementation timetable in line with early guidance issued by CIPFA, which intended to give local authorities plenty of time to plan and prepare for the changes. It is fair to acknowledge that the timetable has been revised to accommodate revised expectations.
- 3.2. Southwest One finance had to prioritise resources to the completion of the 2009/10 final accounts and to support the audit of those accounts. This took up a significant amount of the team's capacity right through to the end of September 2010. Whilst this meant that actions to implement IFRS are later than initially planned, good recent progress has been made and further prioritisation of finance officers' time during March will 'catch up' on the plan. Appendix A provides Members with a summary of progress to date.

4. Key Milestones to Complete Implementation

- 4.1. The following are the proposed key milestone dates to complete the implementation of IFRS and the 2010/11 financial statements (subject to agreement by the Strategic Director):

Heading	Target
Restatement of 2009/10 Comprehensive Income and Expenditure Statement	31 March 2011
Restatement of 31 March 2009 and 31 March 2010 Balance Sheets	31 March 2011
Draft 2010/11 Unaudited Statement of Accounts (on IFRS basis) approved by S151 Officer	15 June 2011
Corporate Governance Committee approve 2010/11 Statement of Accounts	27 June 2011
External audit provide Audit Opinion on 2010/11 Statement of Accounts	30 September 2011

5. Finance Comments

- 5.1. IFRS implementation could influence the reported 'Surplus or Deficit on the Provision of Services'. This is an equivalent of the 'outturn' that is reported externally within the Statement of Accounts. However, accounting regulations mean that adjustments are included within the overall accounts so that the implementation of IFRS has no impact on the requirement to raise income through Council Tax.

- 5.2. In terms of project resources, the Council has no specific budget for the cost of IFRS implementation, and at this stage no additional expenditure has been incurred. Southwest One are taking all reasonable steps to prioritise existing resources to this priority area of work.

6. Legal Comments

- 6.1. The Council's financial accounts are produced in line with relevant statute and accounting regulations. These requirements are reflected in the requirements of the Code and will be met through the proper accounting arrangements in place for this Council.

7. Links to Corporate Aims

- 7.1. Accounting for the Council's financial performance and position, updated through the implementation of IFRS as required, forms a key element of the Council's corporate governance arrangements.

8. Environmental and Community Safety Implications

- 8.1. Not relevant for the purposes of this report.

9. Equalities Impact

- 9.1. There are no equalities issues associated with this report.

10. Risk Management

- 10.1. Successful implementation is important in terms of compliance with statutory accounting requirements. Unsuccessful implementation could lead to the Statement of Accounts being prepared late or with material errors with the potential for qualification by the External Auditor.
- 10.2. The Financial Services Manager is managing this risk and Statement of Accounts are expected to be completed accurately and on time.

11. Partnership Implications

- 11.1. There is a significant partnership impact in relation to additional burden placed on Southwest One services, significantly in Finance and Property. Impact upon resources will be monitored, but Members are advised delivering the implementation and ongoing statutory financial reporting requirements under IFRS will have a significant impact on staff time.
- 11.2. The Council also needs to ensure that information is available from key partners in order to produce the financial statements, including Group Accounts, under IFRS.

12. Recommendations

- 12.1. Members are requested to note the contents of this report.

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APPENDIX A

Summary of Progress on IFRS Implementation

No.	Heading	Progress	Status
1	Accounting Policies	<ul style="list-style-type: none"> • Draft accounting policies have been produced and reviewed by the S151 Officer and External Audit. • These are virtually complete and largely follow the exemplar policies as set out in the Code Guidance. • Final policies will be completed imminently and will be approved by the S151 Officer by the end of March. 	Green
	Fixed Assets	<ul style="list-style-type: none"> • There are significant changes required for accounting for fixed assets. • Work has been undertaken to update the 'Master Data' in SAP so that required new accounting codes have been set up. • Classification of assets has been reviewed by the Valuer, resulting in some assets being reclassified. The finance team need to calculate the necessary accounting entries to reflect the reclassification, and this is scheduled to be completed during March. • This could be a potentially significant piece of work, and further valuation information may be required. 	Amber
	Asset Componentisation	<ul style="list-style-type: none"> • The implementation of componentisation requires changes to the SAP system. The impact of the changes has been assessed and these are scheduled to be implemented during March. • Draft accounting policies have been agreed to set a 'de minimus' threshold for componentisation. • Componentisation predominantly applies to new assets or revalued assets since 1 April 2010 (apart from leased assets – see below). Valuer instructed to provide component values as part of the year end activity in April. 	Green

No.	Heading	Progress	Status
	Asset Componentisation – Council Dwellings	<ul style="list-style-type: none"> • CIPFA and CLG have recently issued guidance regarding the accounting treatment for Council Houses. • This could have significant impact on the accounting arrangements for the housing stock assets, and urgent discussion is required with external audit to agree approach for TDBC. 	Amber
	Leases	<ul style="list-style-type: none"> • Analysis was undertaken in April/May 2010 to assess the impact of IFRS on our leases. At that stage, no accounting changes were required. • This analysis will be reviewed as part of the 2010/11 year end activity, to confirm this assessment, and identify any accounting requirements for any lease acquisitions or disposals during the current financial year. 	Green
	Capital Grants & Contributions	<ul style="list-style-type: none"> • IFRS has introduced changes to the accounting of capital grants and contributions income receivable by the Council. • 2009/10 balances and movements have been restated and are ready to be incorporated into the Restated Accounts. 	Green
	Employee Benefits	<ul style="list-style-type: none"> • Sample data related to unused leave balances was collected as at 31 March 2009 and 31 March 2010. • The Finance Team will during March 2011 calculate the values of untaken leave balances and assess impact to restate accounts. • Process to collect data as at 31 March 2011 is in place. 	Green
	Segmental Reporting	<ul style="list-style-type: none"> • IFRS has introduced the requirement for additional Notes in the Statement of Accounts related to operating ‘segments’ (e.g. Portfolios for TDBC) and ‘subjective analysis’ (i.e. costs analysed by staff, premises, supplies & services, etc). • Report templates will be developed as part of the year end activity, in order to produce the notes. • Finance officers are exploring potential to develop reporting within SAP to produce this information easily. 	Green
	Group Accounts	<ul style="list-style-type: none"> • IFRS has introduced an updated basis of assessing nature of local authorities’ relationships with other entities. • The process for making this assessment will be updated during March/April. However, this is not expected to lead to a change in accounting requirements. 	Green

No.	Heading	Progress	Status
	Restatement of 2009/10 Comparatives and 31 March 2009 Balance Sheet	<ul style="list-style-type: none">• There is a dependency on the completion of the above analyses in order to finalise the restatement of the Accounts.• Whilst the plan is for this to be completed before the end of March, this is a tight timescale and any unplanned delays could impact on this target date. This has been flagged as amber as this would be a concern for external audit.	Amber