

To: Audit & Governance Committee

Date: 31st January 2011

Item No:

Report of: Head of Finance

Title of Report: Transition of the Council's accounts to International Financial Reporting Standards (IFRS) and Closedown 2010/11

Summary and Recommendations

Purpose of report: To update the Audit and Governance Committee on our progress with the transition of the Council's accounts to International Financial Reporting Standards (IFRS), the timescales for completing this, and the risks associated with transition.

Report Approved by:

Finance: Nigel Kennedy

Legal: Jeremy Thomas

Policy Framework: Financial stability

Recommendation(s):

It is recommended that the Committee consider the report and make comments as appropriate

Appendices

A – IFRS and 2010/11 Closedown Timetable

B – Risk Register

Introduction

- 1 IFRSs are International Financial Reporting Standards, these accounting standards are issued by the International Accounting Standards Board (IASB). They are the international equivalent to UK GAAP, the set of Generally Accepted Accounting Principles.
- 2 Accounting standards (IFRS) govern the policies, principles and presentation of Statement of Accounts drawn up at the year end. The object is to ensure that the accounts show a true and fair view of the financial affairs of the organisation and that comparisons can be drawn across the sector from a standardised approach to the published information.

- 3 The Chancellor's 2008 Budget announced that the annual financial statements of government departments and other entities in the public sector will be prepared using International Financial Reporting Standards (IFRS).
- 4 The stated aims and objectives of implementing IFRS are:
 - To develop a single set of understandable enforceable accounting rules, which will be employed across the whole of government accounting
 - To promote the use of and rigorous application of international accounting standards
 - To bring convergence of national accounting standards and IFRS solutions.
- 5 Not to adopt IFRS would probably result in an immediate qualification of the Council's annual Statement of Accounts and the resultant adverse publicity which would follow.

When do we have to adopt IFRS?

- 6 The standards have been adapted, as necessary, for the public sector and are being used from 2009/10 by Central Government and the NHS, and from 2010/11 by Local Government.
- 7 For the Council, this means that annual accounts will need to be prepared using IFRS, for the year ending 31 March 2011, but we will be expected to produce them on the new basis for Whole of Government Accounts in 2009/10.
- 8 In addition, comparative financial information for 2009/10 will need to be restated along with opening balances at 1 April 2009.

What Have Officers Done To Date?

- 9 A considerable amount of work has already been undertaken by officers in ensuring that the Council is IFRS compliant by the agreed date. This work includes :
 - **Undertaking an initial impact assessment** – This assessment considered the impact on systems, staff and finances, and considered and scoped the work required to implement the IFRS requirements.
 - **Formulated a project plan**, which sets out a time scale, allocates responsibility for tasks/milestones and schedules activity up to and beyond the implementation of the new IFRS accounting statements. This plan is attached as Appendix A. At the time of the report all project milestones to date have been achieved.
 - **Discussed progress** on the implementation of IFRS with the Council's Internal and External Auditors.
 - **Identified the substantive changes** and the work related to those changes.
 - **Training for members**, the Audit Commission carried out a training session for the Audit and Governance members covering the key areas around IFRS .
 - **Communication throughout the Council**, this is ongoing with Corporate Assets to ensure that all procedures, policies and guidelines are upto date, understood and followed. Further communications with other

Council officers is ongoing, and training sessions will be held during February and March.

What are the Major Substantive Changes?

10 The impact of implementing IFRS will vary in different authorities. In authorities with large property portfolios, numerous and various leases, or schemes undertaken under the Private Finance Initiative (PFI) the work would be considerable. The impact of the implementation within the City Council is not insignificant, as the Council has a significant property portfolio and has mainly managed the transition with existing staff with some support from PWC. Whilst work is still ongoing, the following substantive areas of work have been identified.

- **Reconsidering the classification of investment assets** – IFRS requires Investment property to be held solely for capital appreciation or income generation. If there is any partial service reason for retaining the asset it must be considered operational and depreciation applied. The restated IFRS Balance Sheet requires the amendment to be made retrospectively for comparator purposes.

Where are we –

- All assets have been reviewed for classification, and approximately 160 were moved from Investment Properties to operational Property Plant and Equipment. All requisite calculations have been made and we are reflecting on recently received advice before making the final adjustments.
- **Identifying the property leases of the Council and establishing the category of the lease, into either finance or operational lease.** This restatement is required for 2008/09 and 2009/10.

Where are we -

- The Council currently has 350 properties leased out: 295 being operating leases and 55 being potential finance leases
- The Council leases in 35 properties, 34 being operating leases and 1 being a finance lease.
- **Collecting data relating to employee benefits that have been earned but not taken, and therefore need to be accounted for as accruals.** IFRS requires costs to be recorded in the contractual year, and this means that if leave is carried forward the cost of leave needs to be taken out of the year it will be taken and passed back as a cost into the year it relates to. Data needs to be collected of untaken leave in respect of carry forward leave, sick leave, and maternity leave. A retrospective restatement is required for 2008/09 and 2009/10

Where are we

- All data has been collected for 2008/09 and 2009/10 restated Balance Sheets and this has been input into these statements. Procedures are being embedded to ensure that this data is available for current and future years.

- **Considering the requirements for component accounting** - This is required where an asset comprises different elements and those elements have different lives. Where this is the case each element needs to be assessed separately for depreciation purposes. For example the Blackbird Leys Leisure Centre may have a number of elements, land which is not depreciated, the main building which may have a life of say 60 years, and the filtration and other equipment which might have a significantly shorter life. This requirement is required from 2010/11 onwards.

Where are we

- A policy has been written on how the Council proposes to deal with componentisation and this has been shared with the Audit Commission. The policy will apply to all assets to ensure that all material components are picked up, and ensure that depreciation levels are sufficient.

- **Preparation of new final accounting statements including the restatement of previous statements into an IFRS format** – The current financial accounting statements need to be amended for formatting changes. The Balance Sheet presentation will be slightly different, a comprehensive Income and Expenditure Account needs to be produced together with segmental reporting and there are also changes to the movement on reserves and the cash flow.

Where are we

- A restated IFRS compliant Balance Sheet as at 1/4/2009 was handed to the Audit Commission together with associated working papers on 24th December 2010
- The IFRS compliant Balance Sheet as at 1/4/2010 will be completed by the 21st February 2011.
- Revised financial statements and skeleton statements will be completed by 31st March 2011

Are we on track?

11 We are behind where we would ideally like to be but conflicting advice on the treatment of investment properties and whether they should be classed as finance leases or not, plus the late release of the CIPFA Code of Practice Guidance Notes received on 23rd December 2010 has not helped. However, now these issues are resolved, we are confident we can complete the restatement of the 2009/10 Balance Sheet by the 21st February in accordance with the timetable. Consequently, we are of the opinion that the Council is on track to deliver an IFRS compliant closedown process for 2010/11 which will commence shortly.

12 Appendix A shows the summary timetable for the restatement of accounts in an IFRS compliant format. The main milestones are:

- | | | |
|---|------------|----------|
| • Restate balance sheet for 2008/09 | 24/12/2010 | Complete |
| • Restated balance sheet for 2009/10 | 21/02/2011 | On track |
| • Skeleton accounts completed for 2009/10 | 31/03/2011 | On track |

- Disclosure notes completed with 2009/10 data

03/06/2011 On track

13 A straw poll of a number of authorities across the country indicates that :

- A limited number of authorities have yet to restate their 2008/09 balance sheet
- Some authorities have restated the 2008/09 balance sheet and 2009/10 balance sheet with working papers and disclosures.
- A limited number of authorities have completed both 2008/09 and 2009/10 balance sheets with all working papers and disclosure notes and also completed a full set of skeleton accounts for 2009/10.

14 Against this straw poll Oxford City Council are not ahead of schedule but we are confident the timetable will be met.

The next steps

15 Officers will continue to work on the completion of restated accounts for 2009/10 based on the principles and work done on the preparation of IFRS accounts for 2008/09 and this is scheduled to be completed by 21st February 2011.

16 The preparation of these accounts is critical to the preparation of the Councils 2010/11 accounts for which officers are currently planning and an update on progress on this timetable will be brought to the next Audit and Governance Committee.

Risks

17 Appendix B shows the key risks of the IFRS implementation process. The major risk centres around key staff. The implementation process is complicated and technical. In a small section it is difficult to obtain resilience due to the complexity of the work and other business which is being undertaken in the section. Some mitigation is possible with the involvement of other staff. However, the main mitigation is the involvement of IFRS consultants which come at a cost.

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Background papers: None

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