

**GOVERNANCE AND AUDIT COMMITTEE  
25 JANUARY 2011**

---

**INTERNATIONAL FINANCIAL REPORTING STANDARDS  
- IMPLEMENTATION UPDATE  
(Borough Treasurer)**

**1 PURPOSE OF DECISION**

- 1.1 To inform the Committee of the progress that has been made towards the implementation of International Financial Reporting Standards.

**2 RECOMMENDATION**

- 2.1 **That the Committee note the progress that has been made towards the implementation of International Financial Reporting Standards (IFRS).**

**3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

- 3.1 Nothing to add to the report.

Borough Treasurer

- 3.2 Comments are contained within the body of the report.

Equalities Impact Assessment

- 3.3 There are no equalities issues arising from the introduction of IFRS.

Strategic Risk Management Issues

- 3.4 The only significant risk for the Council is being unable to implement IFRS within the required timescale and receiving a qualified audit opinion on its accounts as a consequence. This risk is being mitigated by:

- Using a detailed project plan to prioritise key areas of work
- Providing staff with comprehensive training on IFRS
- Utilising external advisors to support the Council with the most technically complex aspects of IFRS
- Close and regular liaison with other authorities and the district auditor.

## **4 SUPPORTING INFORMATION**

### **Reasons for Implementation**

- 4.1 The Chancellor's 2007 Budget announcement introduced IFRS based financial reporting for the public sector from 2008/09. This was updated in the 2008 Budget Report and as a result Central Government and Health were required to adopt IFRS for the production of their 2009/10 annual accounts (with comparatives for 2008/09). The adoption by Local Government will be required for annual accounts from 2010/11 (with comparatives for 2009/10).
- 4.2 The main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.
- 4.3 The private sector has been using IFRS since 2005 and the Government decided that the annual financial statements of Government Departments and other public sector bodies will in future be prepared using IFRS, adapted as necessary, for the public sector.

### **Progress with Implementation**

- 4.4 In accordance with its implementation timetable the Council submitted its proposed accounting policies and a series of technical papers to the district auditor in October. The technical papers explained the Council's intended approach to some of the detailed implementation issues.
- 4.5 The Council subsequently completed the restatement of its 2009/10 accounts and submitted these to the district auditor for review and comment in early December. The district auditor's review of these is currently underway and at the time of writing this report no significant issues have been raised with regard to the implementation or the restatement of the 2009/10 accounts.

### **Changes to Accounting Policies**

- 4.6 The first time adoption of IFRS has resulted in a significant change in accounting treatment in some key areas. These are summarised below:

#### Grants and Contributions

- 4.7 In future grants and contributions relating to capital and revenue expenditure will be accounted for on an accruals basis and recognised immediately in the Income and Expenditure Account, except to the extent that the grant or contribution has a condition(s) attached to it that the Council has not satisfied. Previously capital grants and contributions were amortised to the Income and Expenditure Account over the life of the asset that they financed.

#### Lease Classification

- 4.8 Leases will still need to be classified as either finance leases or operating leases. Previously the lease of land and buildings were considered together for the purposes of the accounts. Under IFRS the lease will need to be split, from inception, into a lease for the land and a lease for the building. Unless title is expected to pass to the lessee at the end of the lease term, the Council will be treating the lease of land as

an operating lease. Finance leases will continue to be recognised in the Balance Sheet, but adjustments will be required to reflect the reclassification of some leases.

#### Investment Property

- 4.9 Investment properties will, in future, be shown as a separate category of asset on the Balance Sheet. Any changes to the value of investment properties will also need to be recognised through the Income and Expenditure Account.

#### Non Current Assets Held For Sale

- 4.10 A non current asset held for sale is an asset where there is an expectation that the amount included in the Balance Sheet will be recovered through a sale transaction rather than through the continuing use of the asset. Under IFRS non current assets held for sale will need to be shown separately on the Balance Sheet.

#### Creditors

- 4.11 Under IFRS the Council will need to accrue for the annual leave of staff which has been earned but not yet taken.
- 4.12 Any payment received at the inception of an operating lease will be shown as a creditor on the Balance Sheet and will be amortised to the Income and Expenditure Account over the life of the lease.

#### **Next Steps**

- 4.13 The next phases of the implementation are as follows:
- Continue to work with the district auditor to ensure that any issues arising from the revised accounting policies, technical papers and restated 2009/10 accounts are resolved at an early stage.
  - A further progress report to the Governance and Audit Committee on 22 March. This will identify any issues raised by the district auditor and seek the Committee's approval to the Council's revised accounting policies as a basis for the preparation of the 2010/11 accounts.
  - Preparation of the 2010/11 accounts on an IFRS basis, the draft version of which will need to be approved by the Governance and Audit Committee before 30 June.
  - Alongside the above training of staff will continue to ensure that they are conversant with the requirements of IFRS.

Background Papers

IFRS transition working papers

Contact for further information

Alan Nash – 01344 352180

[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)

Arthur Parker – 01344 352158

[Arthur.parker@bracknell-forest.gov.uk](mailto:Arthur.parker@bracknell-forest.gov.uk)

Doc. Ref

F:\Governance & Audit Committee\Meeting 25 Jan 2011\IFRS Update.doc