

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – RESOURCES
28 MARCH 2009

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. PURPOSE OF THE REPORT

- 1.1 To inform members on the transition to International Financial Reporting Standards (IFRS) reporting for local authorities. This report also highlights the likely timeframes for introduction and the possible impact this may have on resources.

2. BACKGROUND

- 2.1 The annual financial statements for this council and all other local authority entities are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UKGAAP).
- 2.2 In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, local government bodies are to move to preparing their financial statements using International Financial Reporting Standards (IFRS). These standards will be adapted as necessary for the public sector.
- 2.3 The timetable is such that the 2010/11 accounts for local authorities will be the first to be prepared on an IFRS basis. However prior to this, the Council will need to prepare for the transition to this new basis. The date of transition to IFRS will be 1 April 2009 and the accounts for 2009/10 will need to be re-stated in line with IFRS in order to have comparatives against the 2010/11 accounts.
- 2.4 One year ahead of local government is the introduction of IFRS to Central Government and NHS Foundation Trusts. It is envisaged that it will be possible to learn valuable lessons from these bodies, as well as from the experiences of the private sector.

3. WHAT CHANGES WILL IFRS BRING ABOUT?

- 3.1 Although the full details of the impact of IFRS upon the Council are not currently known it will undoubtedly be a significant change to the existing financial reporting arrangements. The volume and complexity of the new standards will present a challenge.
- 3.2 Listed below are some of the changes likely to affect the way that the Council reports its financial accounts:-
- **Fixed Assets** – IFRS requires fixed assets to be held at ‘fair value’ as opposed to the current requirements for ‘current value’. This may also mean that revaluations of assets will need to be undertaken on a more regular basis than current arrangements.

- **Leases** – IFRS requires that the leases of land and buildings to be accounted for and disclosed separately. Also reassessment as to whether leases are finance or operating leases (basis has changed).
- **Joint ventures and associates** – under IFRS a local authority only needs the power to influence another entity (rather than to actually exercise it) for it to be treated as part of the group
- **Employee Benefits** – under IFRS there will be a requirement to accrue for holiday pay earned but not yet taken. This will also cover other employment benefits e.g. flexi time accrued. There is an added complication for Exeter City Council as the starting point of the leave year for employees is based upon their actual birthday.

3.3 These and other potential areas will need to be examined further over the coming months to establish the level of impact.

4. KEY ACTIONS TO BE TAKEN

4.1 Although the council's 2010/11 accounts will be the first to be prepared on an IFRS basis, there will be a number of key tasks to be undertaken prior to that time. These include:

- restating the 2009/10 accounts on an IFRS basis;
- the opening balances at 1 April 2009 will need to be on an IFRS basis
- Whole of Government Accounts (WGA) will be on an IFRS basis from 2009/10; and
- The impact on budgets, the council tax, our systems and staff training are all areas which need to be considered.

4.2 It is recognised that in the private sector, introduction of IFRS was most successful where functions other than finance were also involved at an early stage, such as estates and human resources.

4.3 It is important that we engage with our external auditors throughout the transition period in order to establish any audit trail or working paper expectations, materiality considerations, preliminary views on accounting treatment, audit timetable and arrangements for ongoing communication.

5. CURRENT POSITION

5.1 A number of seminars on the introduction of IFRS have been attended and it is envisaged that further seminars will be attended over the coming months as further clarification on its application is given.

5.2 Discussions have already taken place at countywide finance officer meetings and we are a member of the IFRS Project Board, hosted by Devon County Council. This is also attended by the Audit Commission and it is hoped that the Board will enable us to share best practice and have a consistent agreed approach for the implantation of IFRS.

5.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently working on producing a draft Code of Practice for IFRS with consultation being undertaken during spring 2009 and a final code being issued in autumn 2009.

6. CONCLUSION

- 6.1 Introduction of IFRS is a major change to public sector accounting and due to potential complexities involved; adopting a structured approach to its implementation should ensure a smooth transition.
- 6.2 Although the council's 2010/2011 accounts will be the first to be published under the new IFRS, there is much work to be carried out in the meanwhile and this may involve some additional resources.

7. RECOMMENDATION

- 7.1 That Scrutiny Committee – Resources note the contents of this report.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling the report:

None