

Title of Report:	International Financial Reporting Standards - accounting policies and prior year comparators
Report to be considered by:	Governance and Audit Committee
Date of Meeting:	28 March 2011
Forward Plan Ref:	GAC2212

Purpose of Report: To approve the accounting policies for the 2010-11 financial statements and the restated prior year comparator figures.

Recommended Action: To agree the accounting policies for the 2010-11 financial statements, and to approve the restated 2009-10 financial statements

Reason for decision to be taken: The implementation of International Financial Reporting Standards (IFRS) in 2010-11. The 2010-11 financial statements will be significantly different, in format and detail, from the 2009-10 statements. This paper will enable members to review some of the changes in advance of the publication of the financial statements in the Summer 2011.

Other options considered:

Key background documentation: IFRS

The proposals will also help achieve the following Council Plan Theme:
 CPT13 - Value for Money

Portfolio Member Details	
Name & Telephone No.:	Councillor Keith Chopping - (0118) 983 2057
E-mail Address:	kchopping@westberks.gov.uk
Date Portfolio Member agreed report:	Agreed 28 February 2011

Contact Officer Details	
Name:	Joseph Holmes
Job Title:	Chief Accountant
Tel. No.:	01635 519474
E-mail Address:	jholmes@westberks.gov.uk

Implications

Policy: n/a
Financial: No cost implications within the report; all the information contained within this is of a financial nature
Personnel: n/a
Legal/Procurement: n/a
Property: n/a
Risk Management:
Equalities Impact Assessment: Not Required

Is this item subject to call-in?	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval	<input type="checkbox"/>	
Delays in implementation could have serious financial implications for the Council	<input checked="" type="checkbox"/>	
Delays in implementation could compromise the Council's position	<input type="checkbox"/>	
Considered or reviewed by Overview and Scrutiny Commission or associated Task Groups within preceding six months	<input type="checkbox"/>	
Item is Urgent Key Decision	<input type="checkbox"/>	

Executive Summary

1. Introduction

- 1.1 Local authorities are required to prepare their 2010/11 accounts using International Financial Reporting Standards (IFRS), as interpreted for the Public sector in the Code of Practice on Local Authority Accounting 2010/11 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.2 The first time adoption of IFRS requires the restatement of the balance sheet on the first day of the comparator year that is 1st April 2009. It further requires that all statements for the comparator year are restated as though they had been produced under IFRS. This has meant that the Council must restate its primary financial statements for the 2009-10 financial year to allow comparison with 2010-11 figures.
- 1.3 The adoption of IFRS has also caused some changes to the accounting policies used by the Council. These have been attached in appendix B.

2. Proposals

- 2.1 The committee is being asked to approve the restated accounts and therefore the new opening balances to the current year accounts and the changes to the Council's accounting policies. This is to ensure members have time to scrutinise and understand the changes under IFRS before the current year's statements are presented to the committee in Summer 2011.

3. Conclusion

- 3.1 The restated balances and the changes to the accounting policies under IFRS are being presented to the committee for approval now to ensure that there is time for effective scrutiny of the financial statements during summer 2011.

Executive Report

1. Introduction

- 1.1 To comply with the Government's requirement to complete annual financial reporting in accordance with IFRS, changes are required to the Council's financial statements.
- 1.2 This report has two elements for approval by members:
 - (1) The restatement of the 2009-10 approved and audited primary financial statements
 - (2) The revision of the Council's accounting policies
- 1.3 By approving these in March 2011 it will allow greater time for discussion and scrutiny of the 2010-11 figures later in the year. This report also shows members the layout and format of the financial statements in advance of their production for 2010-11.

2. Restatement of Financial Statements

- 2.1 The CIPFA code gives guidance on the figures to include within the financial statements and how they should be presented. First time adoption requires restatement of the balance sheet as at 1st April 2009, (this is the closing balance of 2008/09), the first day of the comparator period. All the statements in the 2009/10 statement of accounts have been restated and adapted into the new statements.
- 2.2 The restated statements can be seen at appendix A. The main differences are highlighted below

Comprehensive Income and Expenditure Account:

- 2.3 The total cost of services amount has changed due to the cost of the staff benefit accrual which has been charged to central services and due to the change in policy on government grants deferred.
- 2.4 Also as a result of IFRS the amount for taxation and non specific grant income has changed because all grants both revenue and capital must be shown immediately as income on the I&E statement. The money that was in the balance sheet under current liabilities re capital grants is now showing on the income and expenditure account and has been reversed through the movement between reserves and is now an unusable reserve on the balance sheet.
- 2.5 After the surplus or deficit for provision of services line on the I&E there are further new lines which used to be the now defunct Statement of Total Recognised Gains and Losses.

Balance Sheet:

- 2.6 During the financial year 2009/10 an exercise was carried out to look at all assets to ensure they met the criteria under IFRS, also to ensure that all investment properties are valued at fair value rather than replacement cost and to identify our

assets available for sale. A number of assets were changed between operational and investment properties and a couple of assets were removed from the register.

- 2.7 There has also been a change in the way that non-operational assets are shown. Assets held for sale have been stripped from non-operational assets and moved to current assets.
- 2.8 There is a new classification on the balance sheet under current assets which is cash and cash equivalents, this line combines imprests, cash at bank or overdrawn and investments under three months.
- 2.9 Government grants deferred used to show under long term liabilities and have now been moved into the capital adjustment account in unusable reserves.
- 2.10 Reserves have been split into usable (which are shown separately in total equity), those which are available to the council to spend and unusable where the reserve is set aside for a specific purpose and is not available to spend.

Movement in Reserves Statement:

- 2.11 This is a new statement that has to be included in the primary statements and shows the movement in the year on the different reserves held by the authority.

Statement of the Movement on the General Fund Balance:

- 2.12 This statement has been removed under IFRS.

Cashflow Statement:

- 2.13 The cashflow statement is presented using the direct method.

Notes to the Statements:

- 2.14 The notes to the statements are similar to those under SORP (Statement of recommended practice) but with more detailed disclosures. Under IFRS there is a requirement to show segmental reporting in the notes. Segmental reporting aims to enable the user of the financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environment in which it operates. It also shows what was reported to management and the year end changes needed to produce the I&E account.

3. Accounting Policy Changes

- 3.1 The adoption of IFRS has resulted in a number of changes to the accounting policies
- 3.2 Appendix B highlights the various changes to accounting policies
 - (1) **Employee Costs** – the current policy has been expanded to include the Accumulated Absence Accrual and how we measure the accrual. Under IFRS, the Council needs to complete an accrual on the assumption that the Council ceases activity on the 31st March 2011, and work out the notional cost of accumulated staff absences, namely

accrued annual leave. There is no net cost to taxpayers as a result of this accrual.

- (2) **Cash and Cash Equivalents** – This is a new policy for 2010-11
- (3) **Non-Current Assets** – In line with IAS 16 there has been a change to the classification of some assts and also a change to the valuation used for some classifications. The rules around the componentisation of assets have changed which has led to an additional paragraph showing our policy on componentisation.
- (4) **Investment Property** – There has been a change in the classification of investment properties.
- (5) **Government and Non-Government Grants** – Under the code, grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately as income on the comprehensive income and expenditure statement. The exception to this is where there is a condition attached that has not been satisfied. This is a departure from SORP in that capital grants were amortised to the Income and expenditure over the life of the funded asset.
- (6) **Redundancy policy** – this is a new policy to be included for 2010-11

4. Conclusion

- 4.1 Members are being asked to approve the restated statement of accounts, showing the new opening balances for the current year and the main changes to our accounting policies.

Appendices

Appendix A – Restated Financial Statements
Appendix B – Accounting polices

Consultees

Local Stakeholders: N/A

Officers Consulted: Jane Milone (HR Manager – Policy, information & Development), Lesley Flannigan (Finance Manager – Financial Reporting), Val Bettcher (Financial Accountant), Corporate Board

Trade Union: N/A