



Report to: Audit Sub Committee

Subject: International Financial Reporting Standards (IFRS)

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1. PURPOSE OF REPORT

- 1.2. To update the Committee on the introduction of International Financial Reporting Standards (IFRS) within Local Government.

2. BACKGROUND

- 2.1. The Code of Practice on Local Authority Accounting, which the Council must comply with in the production of its Annual Statement of Accounts, will be based on IFRS with effect from 2010/2011. This is part of a move within the accounting profession to aid comparison between public and private sector financial reporting on both a national and international basis. On 15 December 2009 this Committee received a report regarding the implications of IFRS and the progress being made toward its implementation.

3. CURRENT POSITION

- 3.1 The move to an IFRS-based Code results in a number of significant changes in accounting practice. The requirements of the Code have now been reviewed for applicability at Gedling and systems put in place to gather the new information requirements to ensure compliance.

- 3.2 The key accounting changes include:

- a) The primary financial statements are changed with additional requirements regarding segment reporting. A full set of primary financial statements comprises:

- **Movement in Reserves Statement** – shows the changes in the authority's resources over the year.
- **Comprehensive Income and Expenditure Statement** – shows the gains and losses that contributed to those changes in resources.
- **Balance Sheet** – shows how the resources are held in the form of assets and liabilities.
- **Cash Flow Statement** – shows how the movement in resources has been reflected in cash flows.
- **Notes to the Accounts.**

The Movement in Reserves Statement is a new consolidated statement of the movement in the year on all of the different reserves held by the authority analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. Previously this information was provided in a number of separate disclosure notes and the Statement of Movement in General Fund Balance.

The Comprehensive Income and Expenditure Statement brings together two previous statements namely, the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

The Balance Sheet and Cash Flow Statement have revised layouts.

A skeleton set of the primary statements in the new layout required by the IFRS based Code, including unaudited restated comparative figures for 2009/10, are attached at Appendix A. The primary statements for 2009/10, completed under the UK-GAAP based Code, are included at Appendix B for comparison purposes.

The aim of the new requirement of segment reporting is to disclose information to enable users of the statements to evaluate the nature and financial effects of the activities in which the authority engages and the economic environment in which it operates. Reportable segments will be based on the authority's internal management reporting which, for Gedling, will be portfolios. The Segment Report will appear in the Notes to the accounts but the precise layout and content are still to be determined.

- b) Employee Benefits are accounted for as they are earned by the employee. This requires accruals for items such as untaken holiday and flexi leave.
- c) The Code introduces a new asset classification of Assets Held for Sale which are determined and valued against a specific set of criteria.
- d) Investment Property is no longer included in Property, Plant and Equipment but is shown as a separate line on the Balance Sheet. Gains and losses on investment properties are recognised in the Surplus or Deficit in the Comprehensive Income and Expenditure Statement rather than through the revaluation reserve.
- e) Property leases are classified and accounted for as separate leases of land and buildings.
- f) The requirements in respect of lease classification, as finance or operating leases, are different. Lease arrangements need to be reviewed to ensure correct classification and accounting treatment.
- g) There is a greater emphasis on component accounting in relation to depreciation. If an asset has more than one significant component which has a different useful life the depreciation calculation will reflect that. The policy for componentisation is being finalised for application in the 2010/11 accounts.
- h) Grants and contributions for capital purposes will be recognised immediately as income and will no longer be deferred and released to

revenue to match depreciation. The grant income will be recognised in the Comprehensive Income and Expenditure Account as soon as any conditions attached to the grant are met.

- i) The definition of associates/groups is based on the ability to control rather than the actual control exercised and potentially can lead to a change to a group boundary and group accounting requirements. The review of group boundaries is being completed but no change is anticipated for Gedling.

3.3 The implementation of IFRS requires full retrospective application, other than for component accounting which is only effective from 2010/11. This means that all comparative information for 2009/10 included in the 2010/11 Statement of Accounts needs to be restated as though IFRS had been implemented. The 2009/10 Accounts have been restated in accordance with the Code and have been submitted to the Audit Commission for review. Early feedback indicates that the restated accounts are in compliance with IFRS requirements and the Council can satisfy itself that it is now in a position to fully implement the International Financial Reporting Standards for the closure of the 2010/11 accounts. Members may wish to note that the restatement of the 2009/10 accounts and amendment of accounting processes and procedures have been achieved without the need for any additional external support.

3.4 The implementation of IFRS is introducing increased technical complexity and additional workload in the production of the Statement of Accounts. The size of the accounts will increase due to requirements for more disclosure notes.

4 RECOMMENDATIONS

4.1 It is recommended that Members note:

- i. The revised layout of the primary financial statements included at Appendix A;
- ii. That the Council it is in a position to fully implement the International Financial Reporting Standards for the closure of the 2010/11 accounts;
- iii. That the restatement of the 2009/10 accounts and amendment of accounting processes and procedures has been achieved without the need for any additional external support.