
INTERNATIONAL FINANCIAL REPORTING STANDARDS - UPDATE REPORT

SUMMARY REPORT

Purpose of Report

1. To update Members on the progress being made on the implementation of International Financial Reporting Standards (IFRS).

Summary

2. IFRS were developed to meet the need for consistent financial reporting across international boundaries, primarily in relation to the private sector. The application of IFRS in public sector is gaining momentum. In England and Wales it is a statutory requirement for all local authority financial statements to be IFRS compliant by 2010/11. The Audit Committee was informed in September 2009 of the requirement to implement IFRS.
3. In order to prepare IFRS compliant accounts by 2010/11, the Council will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis.
4. An updated Action Plan (**Annex A**) has been produced to ensure that the Council complies with the relevant timescales and gives a step by step approach which includes a requirement to involve those charged with governance and keep them informed in the whole process.
5. As can be seen from the updated Action Plan there has been substantial progress made on ensuring that the Council is prepared for the introduction of IFRS.

Recommendation

6. It is recommended that the report be noted

Reasons

7. The recommendation is supported as it comprises part of the Council's corporate governance arrangements

Paul Wildsmith
Director of Corporate Services

Background Papers

(i) No papers identified

Peter Carrick : Extension 2326

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Sustainability	There is no specific sustainability impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Background

8. IFRS were developed to meet the need for consistent financial reporting across international boundaries, primarily in relation to private sector organisations where investment and credit decision-making relies heavily on consistent financial information.
9. The application of IFRS in public sector is gaining momentum internationally. The anticipated key benefits of applying IFRS in the public sector are improved decision making through better understanding of long-term financial implications and enhanced reputation by using internationally accepted financial reporting rules. In the UK there is a commitment for public sector-wide compliance by 2011. It is a statutory requirement for all local authority financial statements to be IFRS compliant by 2010/11.
10. Audit Committee was informed in September 2009 of the background and requirement to implement IFRS. The key issues, implications and implementation action plan were reported and a commitment made to report progress six-monthly.
11. In order to prepare IFRS compliant accounts in 2010/11, the Council will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis.
12. As can be seen from the Action Plan there has been substantial work done on the main areas that the Council deems to be a priority.

Implementation Progress

13. One of the main priorities of the Council was the PFI scheme for the Education Village and Harrowgate Hill Primary School. This has now been evaluated by Deloitte and the accounting treatment has been agreed with our external auditors. The assets will appear on the Council's Balance Sheet and the appropriate action has been taken to ensure that the correct processes have been put in place.
14. Under IFRS the Council is required to account separately for leases of land and buildings and an exercise has been undertaken by one of the Council's valuers in conjunction with the Capital Accountant to ensure that the Asset Register has been reviewed and amended to take account of the identified changes.
15. A comprehensive database of all of the Council's known leases has been analysed as to what is above the de-minimis threshold of £5,000 and is also deemed to be a finance lease under the new regulations and therefore required to be accounted for on the Council's Balance Sheet.
16. With regard to fixed asset accounting under International Accounting Standard 16 (IAS16) the different classes of fixed asset are required to be valued under different methods. This exercise has been carried out and the resultant changes will be reflected in the Council's restated Balance Sheet.

17. The exception to this is Infrastructure assets where the requirements do not come into force until 2011/12. There is work going on by the Council's Engineers to ensure that the Council complies with this requirement.
18. IAS16 also introduced the concept of component accounting whereby separate elements of the same asset are treated differently as they are deemed to have different life expectancies. This requirement does not come into force until 01/04/2010 but the Council has put in place processes that will ensure that each asset will be valued in its components when they are revalued after 01/04/2010. The only problem with this is that there is a lack of comprehensive guidance at the moment as to what constitutes a component i.e. what detail do you go down to.
19. Under IAS 19 all local government bodies are required to recognise an annual pay accrual for all leave untaken at the year end. To do the estimate, a sample equivalent to 25% of the non teaching workforces annual leave entitlement was analysed by the Project Team. This produced a calculation that has been agreed with PwC. The resultant figure was not material on its own, which fits in with council policy whereby all annual leave has to be taken at the year end unless by express consent of the relevant Director. A similar exercise will be undertaken shortly after 1 April 2010.
20. The other part of the calculation is to do with teachers pay. Guidance was published by CIPFA on 11th March 2010 as to how it should be calculated. This is important as early estimates point to it being material and therefore an accrual being required.

Recent Developments

21. An important development since the last report to Audit Committee is that there are now regulations that mitigate the effect of any of the changes on the Council's reserves. Any accrual that is required is reversed out in the Statement of Movement of General Fund Balance that means that there is no effect on the Council's reserves.
22. In February 2010 the Audit Commission published the results of a national survey of councils' preparedness for IFRS. Their report highlighted some concerns about the general level of readiness and progress, focussing on: -
 - (a) Project planning
 - (b) Impact assessments
 - (c) Engagement of relevant staff
 - (d) Involvement of audit committees
 - (e) Dialogue with external auditors
23. Against each of these key measures Darlington's progress is good. This self-assessed view is supported by our external auditors.

Conclusion

24. A further progress report will be presented to the Committee in September 2010.