

**Report of the Chief Constable to the Chair and Members
of the Audit and Internal Control Panel
21st April 2011**

**Executive & Presenting Officer: Mrs Ann Hall, Assistant Chief Officer
(Finance & Commissioning)**

Status: For Information

International Financial Reporting Standards (IFRS)

1. Purpose

1.1 To update Members on the requirement to adopt International Financial Reporting Standards (IFRS) for Local Authority (including Police Authority) financial statements from 2010/11.

2. Recommendations

2.1 Members are asked to note the contents of the report.

2.2 That Members agree that a summary of the financial statements be provided in future years.

3. Reasons

3.1 Accounting statements that are fully compliant with International Financial Reporting Standards (IFRS) must be produced for the 2010/11 financial year, including comparators for 2009/10, together with an opening (transition) balance sheet at 1st April 2009.

3.2 The Authority's revenue budget is constructed in accordance with statutory and non-statutory proper practices.

3.3 In recent years there has been a move towards bringing local government accounts more in line with the private sector, and the Statement of Accounts

- 3.4 Meanwhile, in 2002, the European Union (EU) adopted legislation that requires all EU companies listed on a regulated market to use international accounting standards in their financial statement from January 2005.
- 3.5 The differences between UK GAAP and IFRS are decreasing as many recent UK standards have been issued based on international standards. This resulted in changes to the 2007/08 Statement of Accounts relating to the treatment of financial instruments, which are now based on a converged standard.
- 3.6 Accounting Standards
Accounting treatment and disclosures for local authority transactions will follow the following hierarchy of standards:
- *International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (as adopted by the European Union)*
These were issued by the International Accounting Standards Committee (IASC) in the past and are now issued by the International Accounting Standards Board (IASB), which has a private sector focus.
 - *International Public Sector Accounting Standards (IPSAS)*
These are issued by the International Public Sector Accounting Standards Board, a standard setting board which focuses on the accounting and financial reporting needs of national, regional and local governments. IPSAS are consistent with IFRS wherever this is appropriate for the public sector and also cover issues unique to the public sector, e.g., tax collection.
 - *UK GAAP*
UK Generally Accepted Accounting Practice.
- 3.7 The Code of Practice on Local Authority Accounting in the United Kingdom is based on the hierarchy above and sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003.
- 3.8 Timetable
Central Government and the Health Service adopted IFRS from 2009/10, followed by Local Government in 2010/11.

3.9 The timetable for Local Government is:

Date of transition	1 st April 2009
Shadow accounts in IFRS format	2009/10
Whole of Government Accounts (WGA)	2010/11
First full year of IFRS	2010/11

3.10 Full comparative figures for 2009/10 and an opening (transition) balance sheet at 1st April 2009 are required.

3.11 Main Changes

The first main change is the requirement of IAS 1 around the presentation of statements which affects both the layout of the main statements and their titles. The revised titles can be seen below:

Current	IFRS Code
Income and Expenditure Account	Comprehensive Income and Expenditure Statement
Balance Sheet	Balance Sheet
Statement of Movement on the General Fund Balance	Movement in Reserves Statement
Cash Flow Statement	Cash Flow Statement

3.12 In addition there are changes to how some items are disclosed in the Statements, e.g., all assets and liabilities are to be classed as 'current' or 'non current'. There is also a requirement for more detailed disclosure notes.

3.13 Work is currently being undertaken on finalising both the re-statement of the 2009/10 accounts and the opening Balance Sheet, along with a proposed format for both the notes and statements for 2010/11.

3.14 We continue to fully engage with the auditors and they have confirmed that they are happy with all of the work undertaken at this stage and they are happy that we are on target to meet all of the revised requirements.

3.15 Several elements within the statements change in the way they must be accounted for and the most significant areas of change are detailed below.

3.16 Private Finance Initiative (PFI)

PFI assets are now on balance sheet as required by IFRIC 12 which deals with Service Concessions. These assets had to be brought onto the Balance Sheet for 2009/10 with 2008/09 restated, and this was completed as part of the construction of the 2009/10 statutory accounts which have previously been brought to, and approved by, Members.

3.17 Property leases/procurement

Under the requirements of IAS 17 and IFRIC 4, all leases must now be split at inception into a separate lease of land and a lease of a building. Definitions change and all leases, both as lessor and lessee, need to be reviewed for possible reclassification. All procurement contracts must also be reviewed to identify if they contain embedded leases. These occur where the contract is dependent on the use of a specific asset or assets and the contract conveys a right to use the asset(s).

3.18 After discussion with the auditors, the Authority does not expect any leases to fall within the scope for restatement and an exercise has been undertaken to assure our external auditors that we have considered all of the potential leases and procurement contracts that we have and accounted for them correctly.

3.19 Employee benefits

As per IAS 19, annual leave, flexi leave and time off in lieu not taken at 31st March together with non-monetary benefits will have to be recognised as a liability. However, this initial recognition does represent a cost to the Force as there is a statutory override to ensure it is not chargeable to Council Tax.

3.20 The records of each employee in post at 31st March have to be examined to identify outstanding employee benefits and a cost established based on their pay scale. There are also changes to disclosures under FRS17, pension liabilities.

3.21 The Force has already undertaken a significant amount of work in this area to ensure that the information is available for each year required and this exercise will also be undertaken at the 31st March 2011. The balances of employee benefits will also continue to be managed pro-actively by the Force going forward.

3.22 Property, Plant and Equipment

Under the requirements of IAS 16, assets need to be considered from a component accounting perspective from 1st April 2010, for the 2010/11 Statement of Accounts. Component accounting requires that tangible assets with two or more components with substantially different lives and/or a cost that is a substantial part of the total cost of the asset, should be treated as separate components and depreciated over their respective lives. For example, a building could be split into its shell, roof, windows, lifts etc as these components potentially all have differing useful lives.

3.23 Work is currently ongoing to look at all 2010/11 expenditure so far and assess it for component accounting requirements, and this assessment is being documented in order to satisfy audit requirements.

- 3.24 All of the work required in this area will be completed for the 2010/11 Statement of Accounts, and future revaluations will also be undertaken on a component basis.

4. Implications

4.1 Finance

Currently, differences between the budget set and accounting requirements under UK GAAP are reconciled in the Statement of Movement on the General Fund Balance. This ensures that the Precept does not have to be increased to fund items such as depreciation and FRS 17 costs. Going forward this will also include the recognition of a liability for employee benefits and under IFRS. This reconciliation is now done on the Movement in Reserves Statement.

- 4.2 Budget estimates for 2010/11 and future years assume no additional costs will be incurred as a result of the movement to IFRS.

4.3 Diversity & Equal Opportunities

Diversity and equal opportunities considerations are kept under constant review in line with Force policies and 'Putting People First'. There are no issues arising from this report to bring to Members attention.

4.4 Human Rights Act

There are no Human Rights Act implications arising from this report.

4.5 Sustainability

From 2010/11 onwards, the Statement of Accounts will need to be prepared on an IFRS basis; as part of the Oracle ERP project, work is being done to ensure this is part of the new system configuration in order to provide support to the process.

4.6 Risk

Work is ongoing around the requirements of IFRS to ensure that the 2010/11 Statement of Accounts meet all IFRS and audit requirements.

5. Conclusions

- 5.1 The introduction of IFRS will mean that the Statement of Accounts will move even further away from the budget and Precept set by the Authority in accordance with statutory and non-statutory proper practices. It is against this budget that the Authority monitors financial performance and is held accountable to local taxpayers for the Precept it sets.

- 5.2 It is generally accepted that although the Statement of Accounts satisfies legal and technical requirements it does not clearly communicate the Authority's financial position to non-technical readers. For this reason it is important that

5.3 A significant amount of work has already taken place within the Corporate Finance Department, and now in co-ordination with Steria, to ensure that all of the required changes as a result of adopting IFRS are incorporated into the Statement of Accounts in line with the requirements of the timetable for Local Government.

Sean Price
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