

**Report of the Chief Constable to the Chair and Members
of the Audit and Internal Control Panel
25th March 2010**

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

Status: For noting

**Implementation of International Financial Reporting Standards
(IFRS) for Local Authorities**

1. Purpose

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

2. Recommendations

Members are asked to:

- 2.1 Note the progress made in implementing IFRS for Local Authorities in respect of the Police Authority.
- 2.2 Agree that progress be reported to this Panel at 4 monthly intervals.
- 2.3 Agree that initial proposals for summary financial statements are brought to the appropriate panel on a timetable which allows for subsequent consultation on the content and format probably through the vehicle of the local authorities citizens panels.

3 Reasons

- 3.1 For the 2010/11 financial year, fully International Financial Reporting Standards (IFRS) compliant accounting statements must be produced. The statements are to include comparators for 2009/10, together with an opening balance sheet at 1st April 2009.
- 3.2 The Authority's revenue budget is constructed in accordance with statutory and non-statutory recognised accounting best practice.
- 3.3 In recent years there has been a move towards bringing local government accounts more in line with the private sector. The Statement of Accounts is produced in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Its application led to major changes to the Statement of Accounts for 2006/07 and these were reported to the Police Authority at that time. The differences between the budget and UK GAAP are reconciled in the Statement of Movement on the General Fund Balance.
- 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 difference between UK GAAP and IFRS is narrowing as many recent UK standards have been issued based on international standards. Specifically 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) (as adopted by the European Union)*
These are 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 are adopting IFRS from 2009/10, followed by Local Government in 2010/11. 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 |

3.9 Full comparative figures for 2009/10 and an opening balance sheet at 1st April 2009 will be required.

3.10 Main Changes

| 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 |

3.11 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 will be a requirement for more detailed disclosure notes.

3.12 All changes in accounting policies are to be retrospective; they are to be reflected in the opening balance sheet at 1st April 2009 as if they had always been in force. The most significant areas of change are:

3.13 Private Finance Initiative (PFI)

These assets will now come on to the balance sheet. Every transaction in the Statements from inception will need to be reversed and replaced by entries required under IFRS. In this case the IFRS Standard will apply from 2009/10. The Force is currently undertaking all of the work required in this area and all required changes and adjustments will be reflected in the Statement of Accounts that will be presented to Members in June.

3.14 Property leases/procurement

All leases must now be split at inception into a separate lease of land and a lease of a building. Definitions will change and there may need to be reclassifications. All leases both as lessor and lessee will need to be reviewed

for possible reclassification. All procurement contracts will have to 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). The Authority has very few leases that are expected to fall within the scope of this accounting change. An exercise will be undertaken to assure our External Auditors that we have considered all of the potential leases that we have and accounted for them correctly.

3.15 Employee benefits

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. Potentially, the records of every employee in post at 31st March will have to be examined to identify outstanding employee benefits and a cost established based on their pay scale. There will also be changes to disclosures under FRS17, pension liabilities. The Force has undertaken a significant amount of work in this area and robust processes are in place to capture the required information. An exercise will be undertaken at the 31st March 2010 to generate the information to allow for the accounts to be restated as at the 31st March 2011 and the balances of employee benefits will continue to be managed pro-actively by the Force going forward.

3.16 Property, Plant and Equipment

All assets will have to be reviewed for possible reclassification and/or revaluation. There is no requirement to split assets into separate components for the opening balance sheet but this will need to be done from 1st April 2010, for the 2010/11 Statement of Accounts. Component accounting requires that tangible assets with two or more major components with substantially different lives should be treated as separate components and depreciated over these different lives. Initially it was expected that there would be a significant amount of work involved in this area to split current assets into their component parts and change asset registers to record them in this way. However, the requirement to back date these changes has been removed. It will however be necessary to record any future additions by their component parts and future revaluations will need to take into account the components of the assets. All of the work required in this area will be completed for the 2010/11 Statement of Accounts.

3.17 The Force will ensure that IFRS compliance matters are delivered in time to meet the production of the statutory accounts. We will include updates on timescales as part of our regular 4 monthly updates.

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.

- 4.2 Some of the proposed IFRS changes will be a charge to revenue (e.g., leave not taken) and therefore there is a potential impact on Precept unless mitigating regulations are introduced or the liability is managed down to zero. At a national level discussions have taken place with the Department for Communities and Local Government in an attempt to ensure any adverse impacts can be minimised or avoided. It was anticipated that the necessary measures would be in place in time to set 2010/11 budgets however final confirmation has not yet been received.
- 4.3 Currently Budget estimates for 2010/11 and future years assume no additional costs will be incurred as a result of the movement to IFRS.
- 4.4 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.
- 4.5 Human Rights Act
There are no Human Rights Act implications arising from this report.
- 4.6 Sustainability
There are no issues in relation to sustainability.
- 4.7 Risk
Failure to meet IFRS may impact on the reputation of the Force and Authority. The work undertaken, including training of key personnel, consultation with external auditors, and the co-ordination of information to meet the standards addresses this risk.

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 will not clearly communicate the Authority's financial position to non-technical readers. For this reason it is important that the Authority considers how this will be best undertaken for the future given that the Statement of Accounts will be even more of a technical document that it has been in the past. A summary of the financial statements is

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

Sean Price
Chief Constable