

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

13 October 2009

### Report of the Director of Finance

#### Part 1- Public

#### Matters for Information

#### **1 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

**This report informs Members of the requirement to prepare the Statement of Accounts in accordance with International Financial Reporting Standards from 1 April 2010.**

#### **1.1 Introduction**

1.1.1 In its Budget statement of March 2007, the Government announced its intention that all government departments and public sector bodies would be required to prepare their Statement of Accounts in accordance with International Financial Reporting Standards.

1.1.2 This requirement will apply to local authority accounts from 1 April 2010. The transition to IFRS is one of the most important changes to local government financial reporting for a number of years.

1.1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) have recently consulted on the draft IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom and are currently preparing detailed guidance for local authorities which it is hoped will be published in December 2009.

#### **1.2 The Move to IFRS**

1.2.1 The IFRS are being adopted throughout the world and should allow readers to compare accounts between organisations in differing countries under the same reporting standards.

1.2.2 The UK began adoption a few years ago. The introduction of IFRS will result in the format of the financial statements changing and an increase in the information provided by way of notes to the accounts (disclosure requirements).

1.2.3 One of the important lessons to be learnt, both from the private sector's experience of implementing IFRS, and the experience of other parts of the public sector that are implementing IFRS in 2009/10, is that early planning and

preparation are essential to ensure a smooth transition. In the private sector, implementing IFRS led to their published accounts increasing in size by up to 50% (our current published accounts run to some 60+ pages).

- 1.2.4 The move to IFRS for us actually commences from the beginning of 2009/10 as we are required to produce an IFRS based opening balance sheet for the comparator year (as at 1 April 2009) which we are currently in the process of completing.
- 1.2.5 As mentioned above the format of the financial statements are changing, with the income and expenditure account and statement of recognised gains and losses being replaced by a comprehensive income and expenditure statement; and the statement of movement on the general fund balance being replaced by a movement in reserves statement. In addition, the information required to be provided by way of notes is to increase.
- 1.2.6 There have been concerns that the move to IFRS could potentially impact on council tax, for example, the requirement to account for unused annual leave entitlement at the year-end. CIPFA has, therefore, had discussions with the Department for Communities and Local Government to ensure any potential impact on council tax, is minimised, if not avoided.

### **1.3 Resource Implications**

- 1.3.1 The transition to IFRS may require changes to systems, procedures and working practices and as a result there is a considerable amount of preparatory work to do to ensure a smooth changeover. This we currently plan to do within existing resources, but this may need to be revisited depending on the extent of the impact of the move to IFRS on systems, procedures and working practices.

### **1.4 Legal Implications**

- 1.4.1 The Code of Practice on Local Authority Accounting in the United Kingdom sets out the proper accounting practices required by section 21 (2) of the Local Government Act 2003. These proper practices apply to Statement of Accounts prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2003.

### **1.5 Financial and Value for Money Considerations**

- 1.5.1 As set out above.

## **1.6 Risk Assessment**

- 1.6.1 The Statement of Accounts is a statutory document and, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescale could adversely affect the Council's Use of Resources assessment.

Background papers:

contact: Paul Worden

IFRS Consultation papers – CIPFA.

Local Government IFRS Briefing Papers – Audit Commission.

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