IMPLEMENTATION OF INTERNATIONAL REPORTING STANDARDS

1 SUMMARY

1.1 The purpose of this report is to inform the Audit Committee of the timetable for compliance with International Financial Reporting Standards (IFRS) and the implications for the Council.

1.2 The report provides the background to the introduction of IFRS and also summarises the actions that need to be taken in order to ensure that the Council is fully compliant with IFRS for the year ending 31 March 2011.

2 INTRODUCTION

2.1 UK Local Authority financial reporting will undergo a fundamental change during 2009/10 Final Accounts. Local Authority financial statements are currently prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, Statement of Recommended Practice (SORP). This SORP was prepared using UK Generally Accepted Accounting Principles (GAAP) by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved by the Accounting Standards Board (ASB).

2.2 The new Code of Practice, applicable for producing the 2010/11 accounts, will be prepared using accounting principles under IFRS. The Code of Practice on Local Authority Accounting for 2010/11 will be prepared under the oversight of the Financial Reporting Advisory Board (FRAB) rather than ASB as in the previous years, as ASB will no longer exist. The adoption and compliance of IFRS by the Council is required for 2010/11 financial statements, with comparative figures for 2009/10. Therefore the 2008/09 accounts will also have to be restated to show the opening position for 2009/10.

2.3 Therefore, local authorities need to be aware of how IFRS might influence any proposals to undertake activities bearing in mind that the effective initial transition date was 1st April 2009. The areas in local government most affected by IFRS are:-

- PFI Schemes
- Employee Benefits
- Leases
- Group Accounts
- Fixed Asset
- Intangible Assets
- Disclosure Requirements
- Partnerships and Other Joint Working Arrangements.

2.4 The areas under IFRS that most affect the Council are:

- Employee Benefits: IFRS specifically requires organisations to accrue for any short-term employee benefits earned but which have yet to be taken. The most significant item which this refers to for Local Government is paid holiday untaken at the year end. Therefore, the Council will need to accrue for the value of annual leave untaken and flexitime help by each member of staff as at 31 March. Any financial effects of this change on the revenue account in the first year of implementation will need to be carefully considered, though it is hoped that this will be mitigated by government regulation.

- Leases: In accounting there are two types of leases, finance leases and operating leases. Operating leases are 100% revenue expenditure and finance leases have the payments split between capital expenditure and interest payments. The decision on whether a lease is a finance or operational one is based on a number of tests set out in the current accounting standards. Under IFRS the rules for how to decide on the type of lease have been significantly changed and are now based on a judgement rather than a quantitative test. The Council currently has neither sort of lease. However, the new requirements of IFRS means that the Council has to assess all our outsourced contracts to identify any where the contractor is leasing an asset in order to deliver our service and we will then have to determine how to account for them. At this stage this is not expected to have a revenue impact. The main impact will be on staff time in assessing the contracts and carrying out the technical accounting entries.

- Fixed Assets Valuation: The significant changes in this area include different requirements for the basis of valuations and different accounting requirements for investment assets. IFRS may mean a change in valuation methodology and possibly more frequent valuations to ensure that balance sheet valuations are up to date. Valuation processes will probably also need to be updated for IFRS compliance.

- Fixed Assets – Component Accounting: The standard states that a component will be recognised where 'each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately'. Therefore, significant elements of an asset will need to be recorded, valued and depreciated separately. This means that where an asset is made up of several material parts with different lifetimes they will need to be accounted for separately and there may be much more onerous record-keeping requirements for the authority. Examples of components are land, roof, walls, boilers, lifts, etc.

- Disclosure Requirements: IFRS contains a significant number of additional disclosure requirements over and above the UK GAAP requirement. Examples include leases, investment assets, financial instruments, operating segments and many other areas. IFRS also requires the disclosure of the nature and impact of yet to-be-adopted accounting standards. It is likely that the Statement of Accounts and disclosure notes will need to be modified. Until the Code is finalised it is difficult to assess the full impact of these additional disclosures.

3 BACKGROUND

3.1 The move to IFRS for the public sector was announced as part of the Chancellor's 2008 Budget report (March 2007 HM Treasury Budget Report). The aim is to bring about benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.

4 OBJECTIVES AND SCOPE

4.1 The main aim of the IFRS implementation is to enable the Council to bring its business practices and the reporting systems in line with the requirements of IFRS. The implementation of IFRS will be project managed using the Council's Project Management Framework. The main objectives will be:-

i. To produce an IFRS compliant Balance Sheet for 2008/09.

ii. To produce a shadow set of accounts for 2009/10 in order to show IFRS compliant prior year comparatives.

iii. To produce the Whole of Government Accounts on an IFRS basis for 2009/10.

iv. To produce an IFRS compliant Statement of Accounts for the year 2010/2011.

4.2 In order to carry out above tasks the following will need to be considered:-

- To prepare an opening balance sheet that is IFRS compliant as at 1 April 2009 on IFRS basis.
- To restate the 2009/10 accounts on an IFRS basis, CIPFA guidance.
- Interpret the (IFRS) standards and assess their impact on the Council.
- Provide training and guidance to finance staff and other colleagues as appropriate.
- Ensure accounting and IT systems are correctly set-up to deliver the information required to comply with IFRS.

- Co-ordinate different groups to ensure practices are suited for IFRS accounting (e.g. Property Services, Valuers, Auditors (internal and external), Personnel, IT, Legal and Estates).

- Communicate to all interested parties including officers, Members and internal and external audit.

- Update financial services procedure notes and reference guidance on the new accounting requirements.

5 IFRS IMPLICATIONS AND PLAN

5.1 The move to IFRS based financial reporting presents a significant challenge to the Council, due to the volume and complexity of the standards. It is therefore, necessary to prepare a project plan to facilitate the successful implementation of IFRS. An outline project plan is attached for information at Appendix 1. This outline plan is being developed further to cover more detailed aspects of the implementation process. It should be noted however that progress has already been made towards IFRS compliance through work done on new disclosures relating to financial instruments in the 2007/08 and 2008/09 Statement of Accounts. Officers have already undertaken a detailed Impact Assessment which has been discussed with our External Auditors.

5.2 Although the first fully IFRS-compliant accounts are not required until 2010/11, the requirement for prior-year comparatives will require opening balances for 2009/10 to be re-stated. This means that work needs to start immediately on gathering essential information for the current year-end where that information is not currently collated. Good project planning will evidence our sound management of the Council's financial affairs and will be a factor in the Authority's Use of Resources assessment.

5.3 The adoption of IFRS represents a key challenge in terms of technical expertise, time and change management during the conversion process. This will be a major change to the way the Council's financial affairs are reported. IFRS changes will have a wider impact than the previous changes to the SORP that happen annually under UK GAAP.

5.4 Under IFRS the presentation and content of the Council's core Financial Statements will change, as shown in the table below:

Current Statements	New Statements
Income and Expenditure Statement	Comprehensive Income & Expenditure Statement
Statement of Movement on the General Fund Balances	Movement in Reserves Statement

Balance Sheet	Balance Sheet
Statement of Total Recognised Gains and Losses	
Cash Flow Statement	Cash Flow Statement

6 RISK IMPLICATIONS

6.1 To mitigate financial risks to the Council by identifying the consequences of IFRS Implementation at an early stage and take corrective action if and when required. Late or incorrect adaptation of the IFRS may result in the Council's ability to deliver outcomes according to the IFRS requirements.

6.2 The importance of successful implementation is to maintain the Council's reputation as an organisation that can manage resources efficiently.

7 REVENUE IMPLICATIONS

7.1 The Medium Term Financial Strategy will need to be reviewed in light of any revenue implications and budgets will need to be brought in line with the IFRS accounting principles. This is because as a Council we cannot account on one basis but budget on another.

7.2 Any financial effects on the Income and Expenditure account will need to be carefully considered, particularly where this will impact on the Council Tax requirement. For example, initial work suggests that the accrual for employee benefits (see 3.3 above) will be in the region of £60,000.00. This will have an initial impact in the first year of the Statement of Accounts.

7.3 As set out in the report there will be costs associated directly with the implementation of IFRS which will need to be evaluated. The majority of the costs will be met from internal resources. However, there may be elements of the IFRS which require external advice for its implementation.

8 RESOURCE IMPLICATIONS

8.1 The adoption of IFRS will require considerable staff time in the planning and implementation of the essential changes, and in undergoing the necessary training. The Finance staff are undergoing suitable training for IFRS. The Council will manage these changes in the following ways:-

8.2 <u>Use of Existing Resources</u>: The process will considerably stretch the current resourcing in finance. Current workloads would need to be reviewed in order to see whether there are any non-essential tasks that could be dropped and to consider the impact on service delivery. Other departments will also need to review working practices and resources. It is important to include Internal Audit, Human Resources, Information Technology Services and Legal Services in the implementation process.

8.3 Shared Working: we are currently looking at how we could work with other Authorities across Essex. An initial regional IFRS meeting is to be held to discuss project implementation plans, with subsequent meetings focusing on major areas of change. A representative from the Audit Commission and PKF, our external auditors will also attend.

8.4 Training: The Finance staff are undergoing suitable training for IFRS. These are mainly courses and conferences run by CIPFA.

9 LEGAL IMPLICATIONS

9.1 Councils are required to prepare their accounts in accordance with specified codes of practice which constitute 'proper practices' under the terms of section 21 of the Local Government Act 2003. The Code of Practice for Local Authority Accounting in the United Kingdom 2008 (the Code) will be replaced by a new IFRS based Code of Practice on Local Authority Accounting for 2010/11 will be later produced in 2009 by CIPFA following consultation.

10 RECOMMENDATION

10.1 It is proposed that the Committee **RESOLVES** to note the report and arrangements that this Council is making for the implementation of the change in IFRS Financial Reporting.

Yvonne Woodward

Head of Finance, Audit and Performance Management

Background Papers:-

1. Local Authority Accounting Panel (LAAP) Bulletin 80 – Implementing IFRS – CIPFA.
2. IFRS – Based Draft Code of Practice for Local Authority Accounting

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IFRS IMPLEMENTATION

No:	Task	Time-Table	By Whom
1	Carry out high level impact assessment using information on CIPFA web site (and other resources where available).	Completed July 2009	Financial Services Manager
2	Identify key staff (Finance Legal, Property, HR and Other) and assess resource requirements.	Completed July 2009	Head of Finance, Audit & Performance Management
3	Identify changes to the Accounting Policies (e.g. Employee Benefits, Fixed Assets, Leases, and other areas).	By 31 December 2009	Financial Services Manager
4	Develop a detailed project plan and allocate responsibilities.	By 31 December 2009	Financial Services Manager
5	Key staff training on IFRS transition and SMT and members made aware of IFRS implications.	November 2009 & Ongoing	Head of Finance, Audit & Performance Management
6	Identify systems and procedural changes (including Chart of Accounts changes) required.	By 31 December 2009	Financial Services Manager
7	Identify & obtain information required to restate 1 April 2009 Balance Sheet on IFRS basis.	By 31 January 2010	Financial Services Manager
8	Identify likely impact on budgets (if any), pending on Government guidance.	By 28 February 2010	Head of Finance, Audit & Performance Management
9	Restate 1 April 2009 Balance Sheet on IFRS basis (including reconciliation between UK GAAP and IFRS).	By 28 February 2010	Financial Services Manager

IFRS IMPLEMENTATION

No:	Task	Time-Table	By Whom
10	Implement systems and procedural changes (including Chart of Accounts changes) if required.	By 28 February 2010	Financial Services Manager
11	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies).	By 31 March 2010	Financial Services Manager
12	Restate 2009/10 accounts in IFRS format in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS).	April 2010 - December 2010	Financial Services Manager
13	Produce 2010/11 Accounts on IFRS basis.	April 2011 - June 2011	Financial Services Manager