



TO: Audit Committee

FROM: Strategic Director Resources

DATE: 22nd April 2009

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

**TITLE OF BRIEFING PAPER THE IMPLEMENTATION OF
INTERNATIONAL FINANCIAL REPORTING
STANDARDS (IFRS) FOR LOCAL
AUTHORITY ACCOUNTING STATEMENTS**

1. PURPOSE

- 1.1 To explain the background to the requirement to adopt International Financial Reporting Standards (IFRS) for Local Authority accounting statements from 2010/11 onwards, and to outline the timetable for transition and the planning process required to ensure the transition is carried out successfully.

2. RECOMMENDATIONS

- 2.1 To note the requirement for the Council to produce fully IFRS compliant accounting statements for the financial year 2010/11.

3. KEY ISSUES

- 3.1 In recent years the drive has been towards bringing local government accounts in line with private sector accounts, by minimising the departures from generally accepted accounting principles applicable within the UK (UK GAAP). As a result, the accounting statements for 2006/07 included substantial changes to the format and content of those produced by the Council in 2005/06 and earlier years.
- 3.2 Meanwhile, in 2002 the European Union adopted legislation that requires listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in 2005, resulting in IFRS replacing national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe.
- 3.3 In an increasingly global economy, the move towards a single set of high quality accounting standards to facilitate investment and other economic decisions across borders, has meant that many other countries, outside Europe, have also been adopting IFRS.
- 3.3 Ultimately UK GAAP will disappear, as the existing accounting standards are replaced by IFRS's, therefore, public sector accounting statements will also be required to converge with IFRS.

- 3.4 Central government and health are adopting IFRS from 2009/10, followed by local government in 2010/11. In addition, local government will also have to prepare Whole of Government Accounts (WGA) data on an IFRS basis for 2009/10.
- 3.5 Whilst 2010/11 may seem some time away, those accounts will require full comparative figures for the previous year (2009/10) and thus an opening (transition) IFRS balance sheet will be required as at 1 April 2009.
- 3.6 Under IFRS, accounting policy changes are retrospective – they are reflected in the opening balance sheet as if the Council had always accounted under IFRS. This affects the accounting treatment of various areas, primarily as follows:
- **Employee benefits** will be required to be accrued for as they are incurred e.g. for employees with untaken leave on 31 March, an accrual for leave will need to be included in the balance sheet, and balances adjusted accordingly.
 - **Private Finance Initiative (PFI) accounting** – the draft 2009 Statement of Recommended Accounting Practice (SORP) proposes moving towards a Financial Reporting Manual (FReM) basis for PFI for the 2009/10 accounts. Assuming this is approved, adjustments made in the 2009/10 accounts will provide the information needed for the transition balance sheet.
 - **Property leases** – the definition of operating leases will change and some existing operating leases may be reclassified as finance leases. These will need to be accounted for as separate leases of land and buildings, and will also appear on the balance sheet. An important part of preparing the transition balance sheet will be reviewing all the Council's leases, both as lessor and lessee) and identifying any reclassifications, which will involve input from property and legal staff as well as finance staff.
 - **Property plant and equipment** – while many of the requirements remain unchanged, it is possible some assets will need to be revalued. There is no requirement to separate all assets into component for the transition balance sheet, however, components will need to be identified when they are replaced or when assets are revalued from 1 April 2010 onwards.
- 3.7 In addition to changes in accounting for the key areas outlined above, the format of the accounting statements will change, including changes in terminology and a requirement for more detailed disclosure notes.
- 3.8 The outline project plan at Appendix 1 has been provided by CIPFA to provide a starting point for Council's to develop their own detailed project plans. The Council is currently carrying out a high level impact assessment and gathering information regarding the key issues outlined above, in order to assess how much detailed work will be required.

4. RATIONALE

- 4.1 To provide Audit Committee with an update on future changes to the preparation and presentation of the accounting statements following the adoption of IFRS.

5. POLICY IMPLICATIONS

- 5.1 None

6. FINANCIAL IMPLICATIONS

- 6.1 Some of the proposed accounting changes could affect the Council's balances, and therefore council tax, unless mitigating regulations are introduced. Additional costs may also arise, for example with respect to property valuations and reclassification of leases, as well as possible additional costs involved in the preparation of the new statements.

7. LEGAL IMPLICATIONS

- 7.1 The Council has a statutory responsibility to prepare its' accounts in accordance with "proper accounting practice". From 2010/11, local authorities' Statements of Accounts will be prepared under an IFRS-based Code of Practice on Local Authority Accounting. This is part of a wider public sector move to international standards.

8. RESOURCE IMPLICATIONS

- 8.1 Successful IFRS implementation will require successful buy in from all parts of the Council to be effective. The preparatory work cannot be carried out by finance staff alone, and significant input will be required from legal, property services and human resources as a minimum. The Council will need to decide the balance of internal versus external expertise in the delivery of the IFRS agenda.

9. CONSULTATIONS

- 9.1 None

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DATE: 6th April 2009

BACKGROUND PAPERS: Draft IFRS-based Code of Practice on Local Authority Accounting (CIPFA website); Local Authority Accounting Panel (LAAP) Bulletin 80: Implementation of IFRS – Outline Project Plan

Outline IFRS Project Plan

	Step	Dependency	Dates	Areas for Discussion with External Audit
1	Carry out high level impact assessment using information on CIPFA website (and other resources where available) - PFI - Leases - Tangible Assets - Employee Benefits (e.g. holiday pay) - Other areas		As soon as possible; completion of this stage by May 2009 recommended	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.
2	Identify changes to accounting policies	In parallel with step 1	As soon as possible; completion of this stage by May 2009 recommended	
3	Identify key staff (finance, legal, property, HR, other) Assess whether resources adequate Allocate responsibilities Develop detailed project plan	Based on impact analysis in step 1	As soon as possible; completion of this stage by May 2009 recommended	
4	Key staff trained on IFRS transition		At an early opportunity, then ongoing throughout project	
5	Identify systems and procedural changes (including chart of accounts changes) required		March 2009 – end July 2009	
6	Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet and 2009/10 accounts		March 2009 – September 2009	
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in step 2	March 2009 – September 2009 (assumes CIPFA/LASAAC agree formats in March 2009)	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.
8	Obtain information required to restate 1 April 2009 balance sheet	Identified during step 6	March 2009 – September 2009	
9	Identify likely impact on budgets (if any)		March 2009 – September 2009	
10	Implement systems and procedural changes	Identified in step 5	July 2009 – January 2010	
11	Training for all relevant staff and members		Ongoing from July 2009	

	Step	Dependency	Dates	Areas for Discussion with External Audit
12	Restate 1 April 2009 balance sheet (including reconciliation's between UK GAAP and IFRS)	Obtained in steps 7 & 8	July 2009 – December 2009*	Auditors may wish to consider the implications for reviewing balance sheet and / or processes and arrangements
13	Compile 2010/11 and later budgets on an IFRS basis, building on restatement of balance sheet, taking into account changes to the final version of the Code and any regulations proposed by government to mitigate the impact on the General Fund	Impact from step 9	October 2009 – January 2010	No direct input, but previous discussions and results of any audit work in step 12 may inform budget decisions where auditors involved at an early date
14	Testing of systems and procedural changes	Follow on from step 10	July 2009 – March 2010*	Auditors will wish to consider the implications for relevant work on systems
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliation's between UK GAAP and IFRS)	See steps 6, 7, 8, 12	April 2010 – December 2010*	Auditors will wish to consider the implications for their work
16	Produce 2010/110 accounts on IFRS basis		April 2011 – June 2011	Normal audit procedures – accounts signed by 30 September 2011

* Indicative timetable; absolute deadline is given in step 16.