

Agenda Item 9

Audit and Governance Committee

3 December 2009

SD



Implementation of International Financial Reporting Standards (IFRS)

Summary

International Financial Reporting Standards (IFRS) will be applicable for the 2010/2011 Statement of Accounts. 2009/2010 figures will need to be restated to comply with IFRS, making it necessary to collect data from 1 April 2009.

In order to successfully convert to IFRS support will be required from several areas of the Council and will have a significant impact on the Finance team. This report highlights the key issues, the risks involved and the possible resource implications.

Recommendation

The Committee are asked to note the requirement to implementation IFRS and consider the issues involved.

a) Reasons for Recommendation

The Council's accounts are currently prepared using UK Generally Accepted Accounting Practice (UK GAAP); from 2010/11 the Accounts will be prepared under International Financial Reporting Standards (IFRS). This change does have an impact on the Council's staff resources and the changed accounts could have financial implications. Members need to be aware of these changes and ensure themselves the Council will comply with the accounting standards within the statutory deadline.

b) Alternative Options

The Council has no alternative but to implement IFRS, there are alternatives in terms of resourcing the implementation.

c) Risk Considerations

Risks of not implementing IFRS accurately and on time could mean a qualified audit opinion in 2010/2011. This would also have a negative impact on our Use of Resources assessment.

d) Policy and Budgetary Considerations

These are outlined in the report.

e) Date for Review of Decision

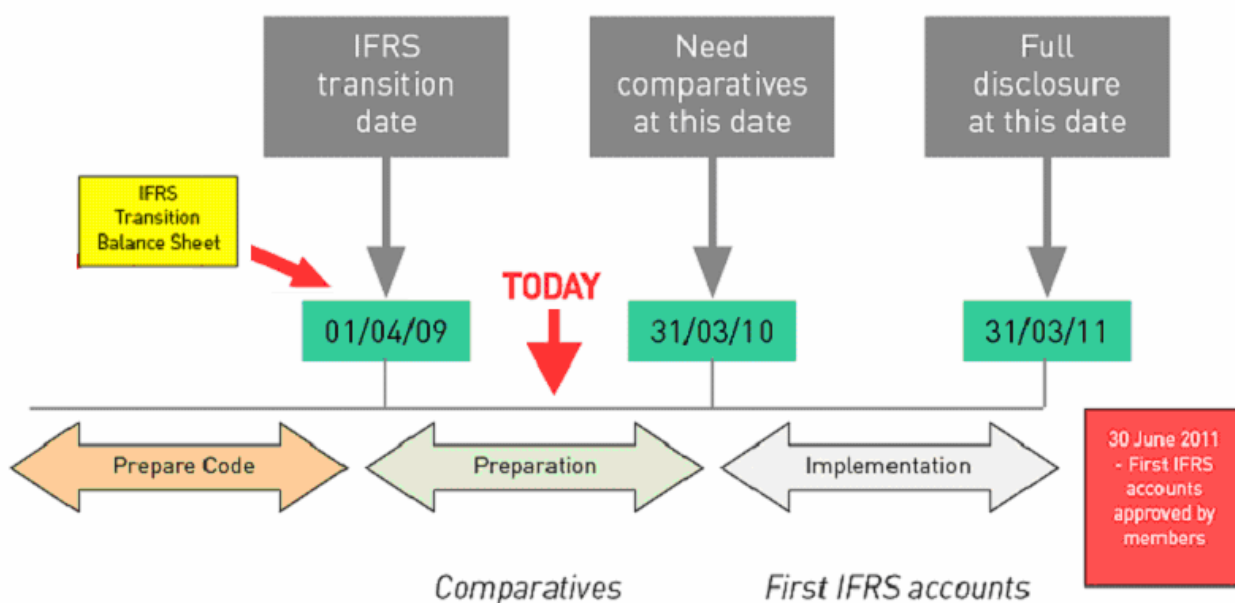
Progress reports will be made to the Audit and Governance Committee at key times of implementation.

1. Background

- 1.1 The purpose of this report is to brief Members on the impact of International Financial Reporting Standards (IFRS) to the Council. This report includes details of the timetable for implementation, the accounting implications as well as the likely staffing implications.
- 1.2 The Statement of Accounts for local authorities are currently prepared under UK accounting standards (UK GAAP). From 2010/2011, these will need to be prepared under IFRS. This change has been imposed on the whole of the public sector by the Government following an announcement in the March 2007 budget.
- 1.3 Listed companies in the private sector implemented IFRS in 2005. Central government and the NHS will be reporting under IFRS from 2009/2010, a year earlier than local authorities.

2. Timetable of implementation.

- 2.1 The first set of IFRS accounts will be for the 2010/2011 financial year. These will need to be approved by 30 June 2011. However, as the comparative figures for the previous year will need to be restated in these accounts, the earliest date that we need to gather IFRS information is 1 April 2009 (see Figure 1).



- 2.2 Appendix 1 contains an outline project timetable that will ensure that the key deadlines are met (key milestones are highlighted).

3. An analysis of the Key Changes

- 3.1 Below are the main key changes which will affect our accounts and will require time to analysis.

➤ Leases

- All existing leases (where the Council is both lessee and lessor) need to be reviewed as some leases could now be treated differently in the accounts. For accounting purposes there are 2 types of leases; finance leases and operating leases. Operating leases are 100% revenue expenditure and finance leases have payments split between capital expenditure and interest payments. The rules of determining the type of lease have been revised and most importantly more emphasis is placed on judgement rather than a quantitative test. Individual components within lease arrangements may need to be split out separately with land elements treated as an operational lease and a building as a finance lease.

- IFRS introduces the concept of 'lease type arrangements'. Implementation could require the Council to recognise a lease of assets held by contractors but used only for the Council's contracts. This could potentially have an impact for the Council because it will require a review of all our major suppliers and partnerships. For example, if our contract with Sita gives the Council 'control' of the refuse vehicles, then these vehicles should be taken onto our balance sheet.
- Officers have to re-examine all of the Council existing leases and determine how to account for these leases under IFRS accounting. If there is a change in how some leases will be treated, which is likely, then calculations will need to take place going back to the date of the original inception of lease. Currently the Council does not have any finance leases recorded; it is likely under IFRS that more leases will be deemed as finance leases. If we find that we do have finance leases then technically this will affect the Council's debt free status.

➤ Other Fixed Asset Issues

- Material components of assets should be accounted for separately (e.g. the Knowle office building could be accounted for separately for material parts and fixtures such as the roof, walls, lifts, boilers etc.). This could lead to additional work for the Valuers and more assets being held in the asset register.
- There are different accounting rules for revaluations and impairments. Impairments can be a downward valuation due to a fall in market prices, or a loss in value due to an event which affects its value, such as a fire or obsolescence.
- Certain assets will require a different valuation method than used currently. Two valuations may therefore be needed for 2009/2010: one for the 2009/2010 accounts under UK GAAP; and one for the restated valuation in the 2010/2011 accounts under IFRS. In order to calculate the entries for each asset, valuations will need to be completed in line with the new accounting standards and accordingly the Royal Institute of Chartered Surveyors (RICS) has issued guidance on how to achieve this. There could however be a cost to carrying out this work if external valuers are required to assist the process; our property services team will have to make an assessment of this once the full implications of revaluations are known.
- These changes will have an impact on councils asset registers in terms of changes to individual assets and the information required to be held. We hold our assets on IPF (Institute of Public Finance) asset register software which will comply with the new requirements. We are not expecting significant additional costs for the new modules required, but we are waiting confirmation of this.

➤ Employee Benefits

- All benefits payable during employment will need to be accounted for in the period in which the benefit has been earned by the employee. All untaken holidays and flexitime at the end of the financial year will need to be accrued for. Additional information will therefore need to be gathered for the accounts, the majority of this information can be taken from our time recording system but not all details for all staff is held. This has meant and will continue to mean that annually we will have to carry out sample work to gain this information.

➤ Group Accounts

- Under IFRS a local authority only needs the power to influence another entity (rather than to actually exercise it) for it to be treated as part of the group. A full review of all related parties will need to be carried out.

➤ Presentation

- There are significant changes to the main statements. The new formats will need to be explained to Members at an early stage in preparation for the Committee to be able to undertake its role in the scrutiny of the Accounts.
- When listed private sector companies implemented IFRS in 2005, they saw an increase of 50% to 60% in the size of their financial statements. IFRS requires more disclosure notes than is currently the case; however CIPFA has reviewed the disclosure notes and have sought to remove some disclosures where it is not absolutely necessary.

4. Impact on Budgets and Council Tax

4.1 Whilst some of the changes will give rise to a change in the net expenditure reported each year, CIPFA have stated any impact on Council Tax would be mitigated through statutory accounting adjustments. Details of mitigation are required from the DCLG (Department of Communities Local Government).

5. Implications of implementation.

5.1 The changes brought about by IFRS will require input from across the Council. The following is an indication of the services that will need to provide input into the project:

- Leases – All services that are involved in procurement, Property Services.
- Other Fixed Asset Issues – Property Services, Finance
- Employee Benefits – Individual staff (sample basis), Finance
- Group Accounts – Some services, Finance
- Presentation and Technical issues – Finance

5.2 There are a number of specialists that are offering assistance with the conversion to IFRS. However, the intention at this stage is to use existing staff to manage the transition. A project team has been formed and are currently working on the issues with assistance from other officers as required. The project team consists of: Simon Davey (Project Lead – Head of Finance), Laurelie Gifford (Senior Accountant), Claire Read (Assistant Accountant), Donna Best (Principle Estates Surveyor) and Rob Chalklin (Estates Surveyor).

5.3 We are working with Devon County Council, who have dedicated staff working on the implementation, and other Devon districts as a group to implement the changes. This joint working involves sharing knowledge and experience and running joint project meetings.

5.4 An Equality Impact Assessment has not been completed at this stage since the full impact of IFRS has not been assessed.

Legal Implications

There are no issues requiring legal comment

Financial Implications

These are detailed in the report. These comments relate to the presentation of the final accounts and it is envisaged will

Background Papers

Finance papers and CIPFA publications

Appendix 1

Key stages/mile stones to implementation.

	Step	Completion Dates
1	Carry out high level assessment – what are the implications/understand changes to accounting policies.	March 2009 Continuing process as more information is published
2	Sign up to County wide project team for implementation of IFRS	March 2009
3	Determine areas where information needed to restate 1 April 2009 balance Sheet. Particularly consider information which is time bound and needing recording at particular stages.	March 2009
4	Set up formal EDDC project team with key personal	October 2009
5	Key staff trained on IFRS transition	Ongoing
6	Identify systems and procedural changes required (Chart of accounts/asset register etc)	December 2009
7	Consider implications of IFRS in compiling 2010/11 and later budgets on IFRS	October 2009 to January 2010
8	Identify all leases and carry out assessment of Finance or Operating lease.	October 2009 to June 2010
9	Adopt EDDC draft accounting policies under IFRS	February 2010
10	Determine and ensure fixed asset are correctly classified for IFRS	February 2010
11	Revaluations of assets under IFRS	June 2010
12	Restate 2009/10 accounts for 2010/11 IFRS comparisons	June 2010 to December 2010
13	Produce 2010/11 accounts on IFRS basis	April 2011 to June 2011

In addition to the above, the processes and timetable for producing the 2009/10 Accounts under UK GAAP will still need to be undertaken and this has been acknowledged in formulating the above timetable to try and accommdate this work as well. Finance is a small team and the Financial Services Manager post is being held vacant, it maybe necessary to employ an agency resource at stages to backfill at particular pressure points in the workload.