

Report of the Director of Resources

International Financial Reporting Standards (IFRS)

Summary

1. The purpose of this report is to inform members of the implications of the pending introduction of International Financial Reporting Standards (IFRS) and the change in financial reporting from UK General Accepted Accounting Practice (GAAP)
2. In accordance with the Local Authority Accounting Practice (LAAP) Bulletin 80 – Implementation of IFRS - Local Authorities are advised to discuss the implications of IFRS with those responsible for governance arrangements, along with senior management across the organisation and keep those personnel updated throughout the implementation process.

Background

3. IFRS-based financial reporting for the public sector was first introduced in the Chancellor's 2007 Budget report for 2008/09. The 2008 budget report clarified that Central Government and the NHS would be required to adopt IFRS for the production of their 2009/10 annual accounts and that from 2010/11 Local Authorities would prepare their annual accounts in line with IFRS (with comparatives for 2009/10).
4. The introduction of IFRS to the public sector is to
 - a. bring benefits of improved and consistent management information reporting,
 - b. encourage organisations to use a common accounting language,
 - c. allow for better transparency and comparability for financial reporting across the global economy
 - d. follow private sector best practice
5. Private Sector has been using IFRS since 2005 and the Government confirmed that all financial statements of Government Departments and the Public Sector would be prepared using IFRS, adapted as necessary for the public sector.
6. Local Authorities currently report their Statement of Accounts under the Accounts and Audit (England) Regulations 2003 (as amended) in accordance with the Code of Practice - Local Authority Statement of Recommended Practice (the SORP). The SORP complies with UK Generally Accepted Accounting Practice and not IFRS.
7. CIPFA/LASSAC board has released the first IFRS-based Code of Practice on Local Authority Accounting which is currently available for consultation to 11 September 2009. The Code will apply to Local Authority accounting periods starting 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.

8. **The transition to IFRS** will affect many areas of the organisation and in addition to influencing financial reporting, could also impact on budgeting, investment decisions, performance targets and may require process and system changes.
9. There have been concerns that the move to IFRS could potentially impact on council tax and housing rents. CIPFA has been in discussions with the Department for Communities and Local Government to ensure any impacts can be minimised, if not avoided, and it is anticipated that any measures / legislation needed to offset any effects of the move to IFRS will be in place in time for authorities to set their 2010/11 budgets. No further information is currently available at this time but it is thought there will be no affect.
10. The impact of many of the IFRS will be presentational with new terminology being introduced and a significant increase in the level of disclosure notes being required in the Statement of Accounts. However, the move to IFRS is also bringing a number of accounting changes in the way information is collated, accounted, reported and processed. Local authorities have already taken significant first steps with the implementation of the IFRS-based financial instruments standards in the 2007/08 accounts.
11. **The IFRS areas of change** to consider during the period of transition for Local Authorities are
 - a. Significant Changes:
 - i. First time adoption
 - ii. Increased disclosure requirements
 - iii. Segmental reporting
 - iv. Private Finance Initiatives
 - v. Leases
 - vi. Assets – Infrastructure, Tangible, Intangible
 - vii. Investment properties
 - viii. Employee benefits
 - ix. Group Accounts
 - b. Medium Priority Changes
 - x. Accounting policies
 - xi. Presentation of Financial Statements
 - xii. Financial Instruments
 - xiii. Government Grants
 - xiv. Income Recognition
 - xv. Impairments
 - c. Minor Changes
 - xvi. Stock (inventory)
 - xvii. Post Balance Sheet events
 - xviii. Related party Transactions
 - xix. Provisions
12. **IFRS implementation** is not being introduced in full until 2010/11, however the need to include comparative information for 2009/10 in the first IFRS-based statement of Accounts means that the effective date of transition is at 1 April 2009 and the 2009/10 accounts will need to be restated in IFRS format.
13. **Early planning and preparation** are essential to ensuring a smooth conversion to IFRS. It is essential that the adoption of IFRS is accepted as an authority wide project. An outline project plan for the successful implementation of IFRS is attached at Annex A. It

details the tasks, progress and dates that need to be achieved for the production of the Statement of Accounts in IFRS format by 30 June 2011. The project plan also highlights the importance of engaging with external Auditors - Audit Commission - on an on-going basis.

14. A project team has been created from staff within Corporate Finance, with individuals having been appointed as project leads to the IFRS significant, medium and minor changes listed in paragraph 10 above. The project team will engage with relevant personnel across the Authority to raise awareness of IFRS and to embed the changes efficiently with effective communication.
15. Further reports will be brought to Audit & Governance Committee to keep Members updated on progress of the project.

Consultation

16. The introduction of IFRS's will require service areas across the authority to engage with the change in accounting regulation. Members will be updated and made aware of the changes in the IFRS financial statement of accounts to be produced by 30 June 2011.

Options

17. It is a statutory requirement to introduce IFRS into local authority accounts for the financial year 2010/11. No alternative option to the recommendation at paragraph 16.

Corporate Priorities

18. Therefore the Authority will need to comply with the IFRS as financial reporting is one of the measures in the Use of Resources score as part of the Comprehensive Area Assessment

Implications

19. The implications are
 - Financial - there are no financial implications to this report as the project work is being undertaken by existing resources. .
 - Human Resources - there are no human resource implications to this report
 - Equalities - there are no equality implications to this report
 - Legal - there are no legal implications to this report
 - Crime and Disorder - there are no crime and disorder implications to this report
 - Information Technology - there are no information technology implications to this report
 - Property - there are no property implications to this report
 - Other - there are no other implications to this report

Risk Management

20. There is a risk to the authority if the Statement of Accounts 2010/11 are not in accordance with IFRS requirements. It is a statutory obligation, with ultimate government action if there is none compliance.

Recommendations

21. That the Audit & Governance Committee note the implications of the introduction of IFRS for Local Government.
22. Reason: The introduction of IFRS to the public sector is to bring benefits of consistency and comparability for financial reporting across the global economy and to follow private sector best practice.

Contact Details

Author:

Louise Branford-White
Technical Finance Manager
01904 551187

Chief Officer responsible for the report:

Keith Best
Assistant Director of Resources
(finance)

Ian Floyd
Director of Resources

Report approved Date

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all*

All

For further information please contact the author of this report

Background Working Papers

IFRS information produced by CIPFA
2008 & 2007 Chancellors Budget report

IFRS Overview Project Plan

Task	Step / Task	Dependency	Final Date	Progress	Areas for Discussion with External Audit
1	Carry out high level impact assessment using information on CIPFA web site (and other resources where available) PFI Leases Tangible Assets Employee Benefits (e.g. Holiday Pay) Other Areas		30/09/2009	See Introductory Report . High level Impact Assessment development continuing. Report to Audit & Governance Committee 21 September 2009, with update progress reports in future	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc. = Report on IFRS Implications and progress made to date to Audit & Governance Committee. Meeting with External Audit September 09 to get Audit Commission on Board and have discussion as to progress.
2	Identify changes to accounting policies	In parallel with step 1	30/09/2009	1. Accounting Policies, 2. Identification of required changes in specified areas 3. Individual project plans developed, 4. Mapping of required accounting entries, 5. Responsibility allocated and reported to Project Manager - Technical Finance Manager (LBW)	
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	31/08/2009	Identification of Resources & Responsibilities allocated to Project Leads	
4	Key staff trained on IFRS transition		At an early opportunity, then ongoing throughout project	FAN Course Durham - attended by RB & AC (20/11/09) CIPFA Course - attended by LBW, RB & AC (01/07/09) HM Treasury - Infrastructure Assets :Roads components with CYC Engineers by RB (15/05/09) FAN Course Durham Asset Components & Leasing - attended by RB (16/07/09)	
5	Identify systems and procedural changes (including Chart of Accounts changes) required		31/10/2009	See 1 & 3 above for identification of specific areas and responsibilities	
6	Identify information (e.g. leases, FA, employee benefits etc) required to restate balance sheet for 09/10 accounts. Collation of data from 1/4/09.		30/11/2009	See 1 & 3 above for identification of specific areas and responsibilities	

Task	Step / Task	Dependency	Final Date	Progress	Areas for Discussion with External Audit
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in step 2	31/12/2009	See 1 & 3 above for identification of specific areas and responsibilities	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc. - Meeting end of October 2009
8	Obtain information required to restate 1 April 2009 balance sheet	Identified during step 6	31/12/2009	See 1 & 3 above for identification of specific areas and responsibilities	
9	Identify likely impact on budgets (if any)		31/01/2010	Ongoing discussion with Project Leads and Financial Planning / Service Accountants. Process connected with 2010/11 budget process	
10	Implement systems and procedural changes	Identified in step 5	31/01/2010	Ongoing through the life of the IFRS Project. Discussion across Corporate Finance Management Team meetings, Across Services Senior Accountant Meetings, information briefings, brain storming sessions etc	
11	Training for all relevant staff and members		Ongoing	1. Corporate Finance to attend relevant course, 2. Members be trained at subsequent A&G following on from September introduction, 3. Meeting held with relevant departments - Property Services, Legal Services & HR.	
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	Obtained in steps 7 & 8	28/02/2010	Lead by Project Manager - Technical Finance Manager (LBW)- with discussion from project leads on specified areas	

Auditors will wish to consider the implications for reviewing balance sheet and / or processes and arrangements - **Meeting January 2009**

Task	Step / Task	Dependency	Final Date	Progress	Areas for Discussion with External Audit
13	Compile 2010/11 and later budgets on 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 General Fund / HRA	Impact from step 9	28/02/2010	Lead by JL / AC- keep up to date with IFRS budget requirements and implications on different specified areas	No direct input, but previous discussions and results of any audit work in step 12 may inform budget decisions where auditors involved at early date
14	Testing of systems and procedural changes	Follows on from step 10	15/03/2010	Ongoing cross working with Corporate Finance, Directorate Accountants, Property Services, Legal Services, HR etc	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 reconciliations between UK GAAP and IFRS)	See steps 6, 7, 8, 12	April 2010 to December 2010		Auditors will wish to consider the implications for their work
16	Produce 2010/11 accounts on IFRS basis		April 2011 to June 2011		Normal audit procedures – accounts signed by 30 September 2011

Source Documents: Developed from CIPFA LAAP Bulletin 80 - March 09 - Outline project Plan