
Meeting: Audit Committee
Date: 30 October 2009
Subject: Introduction of International Financial Reporting Standards (IFRS)
Report of: Director of Corporate Resources
Summary: The report outlines the likely changes arising from the introduction of International Financial Reporting Standards (IFRS) and sets out the Council's approach to planning for these changes. The changes come into full effect from 2010-11 and, in some areas, will have an impact on the Council's systems and management processes.

Contact Officer: Matt Bowmer, Assistant Director, Financial Services
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

Financial:

Timely and accurate planning for IFRS will help ensure the Council's accounts are compliant with the new accounting standards. Any financial impact on the Council from the introduction of IFRS will be identified in time for the setting of the 2010-11 Budget.

Legal:

Compliance with IFRS will be a statutory requirement from 2010-11

RECOMMENDATION(S):

1. that the
 - (a) Audit Committee note the principal changes arising from the introduction of IFRS
 - (b) Audit Committee receive progress reports on the implementation of IFRS and its implications for the Council

1. BACKGROUND AND TIMESCALES

- 1.1. International Financial Reporting Standards (IFRS) aim to ensure consistency of accounting and financial reporting across international boundaries; they have already been adopted across major parts of the public sector (notably the NHS and central government) in the UK. Local Authorities are required to restate their accounts in readiness for full implementation from 2010-11.
- 1.2. One of the lessons learnt from the introduction of IFRS in the NHS and elsewhere was the need for early planning to ensure appropriate management and system changes are made. An early project has therefore been commissioned to undertake a high-level review of the changes and the possible impact on the Authority. This high-level review may lead to more detailed projects, involving system review and change, taking place in 2010.

2. PRINCIPAL CHANGES

- 2.1. The table below summarises the principal changes which might have an impact on the Authority's financial position and/or management systems and processes. (There are also many technical changes to accounting and reporting, but this report concerns itself solely with changes which might have an impact on the Authority's overall financial position or management processes)

2.2. Summary of Principal Changes

Area of Change	Issues for review
PFI	It is likely that most LA PFI schemes will come back onto the Authority's balance sheet (as has happened in the NHS). We will review the Mid-Beds school PFI schemes to see if the IFRS changes apply and, if so, how to handle these.
Employee Benefits	Costs of employee benefits (e.g. annual leave) are to be accrued in the year in which the benefit is earned. In practice this will require systems to be put in place to capture the amount and value of accrued annual leave for all staff.
Leases	The definition of what constitutes a lease is widened. We will need to review existing contracts, and standard contract terms, to identify any new 'leases'.
Property, plant and equipment	The component parts of assets are to be recognised separately in the accounts. This will have an impact on the way the Authority manages and maintains its asset register.
Intangible Assets	Certain items (principally software licenses) can be capitalised and charged to capital rather than the revenue account. The definition of an 'intangible asset' is changing and may have an impact on what can be capitalised.
Group Accounts	This change may mean that a third party organisation, in which the Authority has a substantial interest, needs to be treated as part of the Authority's accounts. We will review whether the Council's interests in other organisations come within the new definitions.

3. ACTIONS and IMPLEMENTATION

- 3.1. CIPFA (Chartered Institute of Public Finance and Accountancy) has produced guidance on an outline project plan for the implementation of IFRS and we will be following this approach (albeit a bit later than recommended because of the need to create a new opening Balance Sheet for the Council following reorganisation). Appendix A sets out the Action Plan for the project to carry out a high-level impact assessment for the areas identified above. Appendix B sets out the Project Plan for the overall implementation of IFRS, following the CIPFA outline.
- 3.2. In the first stage, small 'task and finish' groups have been set up for each of the areas identified in the table above. The groups will consider and report back on the following questions:
 - For the area identified, what are the main changes proposed under IFRS?
 - Will they affect the Council (its budget, its management, systems)?
 - What information will be required and can we provide it with our current systems and processes?
 - What changes, if any, need to be made to our systems and processes?
 - Who needs to be briefed and involved?
- 3.3. Each of the groups will report back to the Corporate Resources Leadership Team in December to identify their findings and whether the work of the group needs to continue and, if so, in what form. This approach leaves open the options to carry out more detailed systems and process work in 2010 or to conclude that the impact outside the technical accounting arena is minimal.
- 3.4. Throughout the project, the support and input of the external auditors will be sought. The Audit Commission have produced a tool for auditors to use, as part of the 2009-10 audit, to assess how well each Authority is managing the introduction of IFRS. It is expected that progress on implementation of IFRS will feature in the Use of Resources assessment for 2009-10.

Appendices:

Appendix A – Action Plan to December 2009

Appendix B – Indicative Workplan to June 2011

Background Papers: (open to public inspection)

CIPFA, exposure draft Code of Practice on Local Authority Accounting in the United Kingdom 2010, available on the internet at

<http://www.cipfa.org.uk/pt/cipfalasaac/ifrs.cfm>

PREPARING FOR IFRS
ACTION PLAN TO DEC 2009

Week Commencing	Workstream	Decision point / milestone
20 th Sept	Planning Note drafted	
27 th Sept		Planning Note considered and agreed by AD Financial Services
5 th October		Corporate Resources Leadership Team briefed on project outline
12 th Oct	Staff briefing, work streams set up and group members briefed on the task	
19 th Oct	Advice on issues contained in draft Code sent out to team members for each workstream Discussions with external auditors	Progress review with CRD Programme Manager
26 th Oct	Teams identify what information may be available, held by whom, to carry out high level impact assessment and which staff need to be involved. Briefing to Audit Committee	
2 nd November	Data collection and analysis	
9 th Nov		
16 th Nov	Teams review issues and data: - systems and procedure changes needed? - Possible impact on budgets? - Staff training needed?	Progress review for AD Financial Services, including - areas of possible significant impact on the Authority - data and/or system issues
23 rd Nov	- More detailed project for 2010?	
30 th Nov	Reports drafted from each workstream addressing key questions and recommending next steps	
7 th December	Commence restatement of balances as at 1 st April 2009, as appropriate	Workstream reports signed off by AD Financial Services
14 th Dec		CRLT sign off workstream reports

Note: the above is an 'Overview' workplan. In practice, different workstreams might take place at a different pace depending on the issues that are found (e.g. if data is readily available and easily analysed, restatement of balances should not wait until December; if data shows that significant system changes are needed then detailed project plan should be drafted as soon as possible).

PREPARING FOR IFRS
WORKPLAN TO JUNE 2011

Date(s)	IFRS Task	External dependency/deadline
Sept 2009	Project commencement	
Sept to December 2009	High level impact analysis Engagement and briefing of key staff Data and system issues identified Budget impact, if any, identified Detailed project plans drawn up as appropriate	
December 2009	Restatement of 1 st April 2009 balances	CIPFA revised code of accounting practice issued
Jan to March 2010	Detailed projects for system changes commence, where appropriate Skeleton Statement of Accounts drafted in new format	
April to June 2010	Closure of Accounts 2009-10	External audit of accounts, including review of progress on IFRS
July to Sept 2010	Implement any system changes Staff training	
Sept to Nov 2010	Restate 2009-10 accounts on new basis using new systems	
April 2011	Produce 2010-11 accounts on new basis using new systems	External audit of accounts, based on IFRS