

Report To:	Audit Committee	Date 25 August 2009
Report By:	Chief Financial Officer	Report No: FIN/40/09/AP/JB
Contact Officer:	Jan Buchanan	Contact No: 01475 712225
Subject:	Implementation of International Financial Reporting Standards	

1.0 PURPOSE

- 1.1 The purpose of the report is to advise Committee of the preparations underway for the implementation of International Financial Reporting Standards (IFRS).

2.0 SUMMARY

- 2.1 From 2010-2011 local authorities will be required to prepare the annual accounts in line with International Financial Reporting Standards. Preparation and implementation will bring significant challenges to the Council over the next two financial years.
- 2.2 A Project Team has been set up to ensure that an effective transition is delivered with minimum disruption.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee:
- Note the content of this report and
 - Note that further reports will be presented at regular intervals outlining progress and further developments.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 From 2010-2011 local authorities will be required to prepare the annual accounts in line with International Financial Reporting Standards (IFRS).
- 4.2 This follows the announcement by the then Chancellor in the 2007 Budget, that public accounts were to move to an IFRS bases “in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice”.
- 4.3 This new reporting regime will bring significant challenges for the Council, requiring revisions to accounting policies, changes in the format of financial statements and systems and a significant number of additional disclosures.

5.0 PLANNING FOR THE IMPLEMENTATION OF IFRS

- 5.1 Although IFRS is not being implemented in full until 2010-2011, the need to include comparative information for 2009-2010 in the first full IFRS-based statement of accounts means that the opening balance sheet figures at 1 April 2009 will need to be restated during the current financial year.
- 5.2 An IFRS Project Team managed by the Finance Manager has been set up with overall responsibility for the governance and management of the implementation in line with accounting regulations and within prescribed timescales. The Project Team has already conducted a high-level impact assessment with specific reference to the Chartered Institute of Public Finance and Accountancy (CIPFA) draft IFRS-based Code of Practice on Local Authority Accounting. A detailed project plan will be developed to establish the scope of the project, set prescribed timelines and identify major and interim milestones. Sub Groups will be formed to carry out in-depth analysis of specific areas of technical change and will comprise officers from relevant Services and members of the Council's associated bodies as required.
- 5.3 The Project Team has met with officers from the Council's Physical Investment Team, Education Support & Development section and HR&OD and their input and support is vital to the successful transition to IFRS. They have also met separately with officials and their financial advisers from Inverclyde Leisure and Riverside Inverclyde to brief them of the changes and of the information that Finance will require from them in the Autumn to prepare the opening balance sheet figures at 1 April 2009.
- 5.4 Officers from Finance Services have already attended technical seminars/workshops and will continue to share experiences with colleagues in other local authorities.

6.0 DEVELOPMENT PRIORITIES

- 6.1 The volume and complexity of the new standards represent a significant change to existing financial reporting. The main areas of priority are in respect of Public Private Partnerships (PPP), leases, fixed assets, investment properties, employee benefits, group accounts and the presentation of financial statements.
- 6.2 In addition, the ability of existing systems and processes to generate the prescribed information, resource levels, training needs and general budgetary implications will also require to be identified.

7.0 IMPLICATIONS

- 7.1 Financial

There have been concerns that the move to IFRS could potentially impact on the council tax. CIPFA is already in discussion with the Scottish Government to ensure that any impacts can be minimised, if not avoided, and it is anticipated by them that any necessary measures will be in place for authorities to set their 2010-2011 budgets. The project to adopt IFRS is incorporated into the 2009/11 Directorate Plan for and at this point in time it is envisaged that any costs associated with the transition will be contained in existing resources.

7.2 Legal

None

7.3 Equalities

None

7.4 Personnel

None

APPENDIX 1 : MAIN ISSUES TO BE ADDRESSED IN MOVE TO IFRS REPORTING

1.0 TECHNICAL CHANGES

- 1.1 The Council will have to produce IFRS accounts from 2010-2011. There are a number of challenges regarding changes to practices, reporting and monitoring which have to be considered in order for the Council to comply.
- 1.2 Fixed assets will be measured and recorded differently, particularly as a result of revaluation bases, impairment, revaluation losses and a stronger emphasis on component accounting. Specific consideration will need to be given to the capitalisation or the re-classification of software and development costs.
- 1.3 Outstanding holiday pay will need to be accrued. That is, for employees (including teaching staff) who have annual leave remaining at 31 March, a provision will be required to be accrued into the financial statements for the cost of this.
- 1.4 Categorisation of leases may change and leases for land and buildings will need to be separated in all cases – i.e. finance versus operational leases.
- 1.5 The Council's Public Private Partnership (PPP) assets will need to be reported in the Council's Balance Sheet based on a series of 'control' tests rather than 'the current risk and reward' basis.
- 1.6 The Council's year end Financial Statements (including supporting disclosure notes) will need to be changed in line with IFRS. and
- 1.7 The Council's Chart of Accounts and supporting systems will need to be adapted to allow new information to be available. This will have to be in place prior to the start of the year.

2.0 CONSIDERATIONS IN PLANNING FOR THE IMPLEMENTATION OF IFRS

- 2.1 CIPFA has produced an Information Bulletin on how local authorities can prepare for the introduction of IFRS and this includes a self-assessment checklist and outline project plan. The Bulletin asks the following questions, and the response for this Council is shown in italics.
 - 2.1 Does the Council have all the technical information necessary to ensure that it complies with the new reporting standards and understand the implications?
With a number of training courses now becoming available, staff should have technical information available to them to progress the necessary in time for the introduction of IFRS to local government.
 - 2.2 Will investing staff time in the effective implementation of IFRS have a negative impact on service delivery?
Finance Services has established a Project Team within Corporate Accounting and Council has agreed an enhancement to establishment in 2008-2009, part of which was for the development of the Council's readiness for the introduction of IFRS.
 - 2.3 Do Finance Services have the capability and capacity to efficiently and effectively implement this transition?
Following on from 2.1 and 2.2, the Project Team will set out a detailed action plan timetable to take the necessary actions forward. The Project Team will require to have input from various departments.

- 2.4 Do key personnel within the operational and strategic units of services have an in-depth understanding of IFRS in order to facilitate this change?

Updated information will be presented at regular intervals to the CMT and Focus Groups in services and Associates. Appropriate training and staff will be identified through the Project Team.

- 2.5 How will IFRS be embedded into the Council's financial processes processes?

Through the action plan and the communication processes outlined above. The Project Team has been established since the start of the year and has already met with officers from the Council's Physical Investment Team and Education Support & Development section and has met separately with officials and their financial advisers from Inverclyde Leisure and Riverside Inverclyde to brief them of the changes and of the information that Finance will require from them in the Autumn to prepare the opening balance sheet figures at 1 April 2009. Going forward, the Project Team will prepare a detailed project plan to allow necessary actions within the systems to be identified to ensure they are in place prior to the appropriate start date.

3.0 OTHER ISSUES

- 3.1 The Financial Statements may increase in size by 60% after the introduction of IFRS due to the need for more disclosures. In addition, Financial Services will require to assess the ability of existing systems and processes to generate the prescribed information, and identify the resources, training needs and general budgetary implications.

The draft IFRS-based Code of Practice has been issued for formal consultation with stakeholders. Finance Services will submit a response on behalf of Inverclyde Council. The Project Team in development of a project plan will assess any additional time and resources required and build this into the plan for the closure of the Council's first fully IFRS-based Accounts in 2010-2011.

- 3.2 In order to succeed, the Council must ensure the changes are embedded across the whole organisation in its systems and that those personnel who require knowledge have it available to them.

The Project Team will be reviewing systems as part of its remit. They will assess the changes required to systems, processes and the chart of accounts and will develop required changes, and test and implement these.

Part of embedding the changes across the Council will be to work with officers in services directly affected by the IFRS changes. This principally affects officers responsible for PPP (Education), leases (PIT), measurement and valuation of physical assets (PIT), accrual of holiday pay (HR, Education Support Services), and Associates in Group Accounts (Inverclyde Leisure Ltd and Riverside Inverclyde Ltd). The Project Team has had "heads-up" briefing sessions to alert officers in good time to the information required and the timescales.

- 3.3 The draft IFRS-based Code of Practice on Local Authority Accounting is has been issued for formal consultation with a response date of September 2009.

Finance Services will submit a response on behalf of Inverclyde Council.

APPENDIX 2: MANAGING THE CHANGE

1.0 THE DRAFT TIMELINE

1.1 CIPFA has issued advance general guidance on reporting milestones and these are shown in the table below, these timescales are subject to change. The Project Team has incorporated the milestones below into their high-level review.

1.2	Step	Dates	Areas for Discussion with External Audit
	Carry out high level impact assessment	Completed May 2009	Ongoing - discussions between the Council and auditors to inform auditors over project plan, approaches being taken, raise any issues/difficulties etc.
	Identify changes to accounting policies	Completed May 2009	
	Identify key staff in finance, property HR, and other. Assess whether resources adequate. Allocate responsibilities. Develop project plan	Completed May 2009	
	Key staff trained on IFRS	Initial training in March and April 2009 and then ongoing throughout the project	
	Identify systems and procedural changes.	September to December 2009	
	Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet	September to October 2009	
	Develop skeleton Statement of Accounts under IFRS	September to December 2009	
	Obtain information required to restate 1 April 2009 balance sheet	March to November 2009	
	Identify any impact on budgets	March 2009 to September 2009	
	Implement systems and procedural changes	September 2009 to February 2010	
	Training for all relevant staff and members	Ongoing from March 2009	
	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	September 2009 to January 2010	Auditors will wish to consider the implications for reviewing balance sheet and/or processes and arrangements.
	Testing of systems and procedural changes	September 2009 to March 2010	Auditors will wish to consider the implications for relevant work on systems.
	Restate 2009-2010 accounts in parallel with main 2009-2010 accounts process	June 2010 to December 2010	Auditors will wish to consider the implications for their work
	Produce 2010-2011 accounts on IFRS basis	April 2011- June 2011	Normal audit procedures – accounts signed by 30 September 2011.