
Report To:	Audit Committee	Date:	5 January 2010
Report By:	Chief Financial Officer	Report No:	FIN/83/09/JB/GJ
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Subject:	Progress on Implementation of International Financial Reporting Standards		

1.0 PURPOSE

- 1.1 The purpose of the report is to advise Members of progress being made in the preparations for the implementation of International Financial Reporting Standards (IFRS).

2.0 SUMMARY

- 2.1 From 2010-2011, local authorities will be required to prepare their 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 report was submitted to the Audit Committee of 25 August 2009 that advised of the preparations underway for the implementation of IFRS. A high-level timetable was attached for Members' information.
- 2.3 The first major task is to restate the opening balance sheet position at 1 April 2009 and this has slipped by two months from the original target date of January 2010 to March 2010 but this slippage is not critical to the overall programme..
- 2.4 Approval was received at the Policy & Resources Committee of 17 November 2009 to tender for external specialist valuation services to support in-house resources for the valuation of various properties of the Council for the Annual Accounts.
- 2.5 The achievement of the target dates for the areas of priority will ensure that a restated balance sheet at 1 April 2009 is achieved and the remainder of the project timetable is not adversely affected.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee:
- a) Note the content of this report and
 - b) Be advised 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 require to prepare the Annual Accounts in line with International Financial Reporting Standards (IFRS).
- 4.2 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.
- 4.3 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.
- 4.4 The first key task is to restate the Council's opening balance sheet position at 1 April 2009 in accordance with the new IFRS-based Accounting Code.

5.0 PLANNING PRIORITIES FOR THE IMPLEMENTATION OF IFRS

- 5.1 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 leases, fixed assets, investment properties, employee benefits, group accounts and the presentation of financial statements.

5.2 Leases, Fixed Assets and Investment Properties

The Project Team has met with officers from the Council's Physical Investment Team and information has been sought from officers of the Council for leases for property, plant and equipment in order to reassess every lease where the Council is a lessor or lessee to ensure the proper classification and accounting treatment.

In addition, approval was received at the Policy & Resources Committee of 17 November 2009 to tender for external specialist valuation services to support in-house resources for the valuation of various properties of the Council for the Annual Accounts.

Further guidance from the Royal Institute of Chartered Surveyors (RICS) and CIPFA is expected in January 2010 for the valuation of leases and properties under what is known as "fair value".

5.3 Employee Benefits

The year-end accrual of salaries, wages and social security contributions will be extended to cover what is known as "short-term compensated absences". This covers annual leave and flexi-time that is accumulating. The cost of the untaken entitlement needs to be accrued and the accrual needs to be recognised at the balance sheet date.

A survey is being conducted of the untaken annual leave and flexi-time as at 31 March 2009 for representative sample of Council employees, and officers from services are assisting with the ingathering of this information. This representative sample will inform the year-end accrual. The survey does not include teachers or sessional staff, the accrual of which will be based on information supplied by the Education Services.

External Audit agreement has been received for this approach.

5.4 Group Accounts

The Project Team has met with officials and their financial advisers from Inverclyde Leisure and Riverside Inverclyde to brief them of technical changes and of the information that Finance requires to prepare the opening balance sheet at 1 April 2009. Satisfactory progress is being made.

5.5 **Presentation of Financial Statements**

The local authority Accounting Code of Practice has been refined since the consultation document that was available at the time of the last report to Committee. The draft version subsequently issued in late August contained a number of significant amendments concerning the treatment of fixed assets such as land and buildings.

In the final published version of the Code (due in late December 2009), further significant changes are expected (based on announcements in CIPFA bulletins), concerning a completely new accounting treatment of Government grants and a new sub-category of property in the balance sheet.

A skeleton layout of the Council's accounts in an IFRS-based format will be developed in January 2010, once full details are known, with a target date of March 2010 for the revised opening balance at 1 April 2009

The achievement of the target dates for these areas of priority will ensure that a restated balance sheet at 1 April 2009 is achieved and the remainder of the project timetable is not adversely affected.

6.0 **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 previously approved use of external valuers will be contained in existing 2009/10 Finance Services budget.

7.2 Legal

None

7.3 Equalities

None

7.4 Personnel

None

APPENDIX 1: MANAGING THE CHANGE

1.0 THE REVISED TIMELINE

1.1 The original timetable presented to the Audit Committee on 25 July 2009 was based upon general guidance issued by CIPFA on reporting milestones and these are shown in the table below. The revised dates are shown in italics in the right hand column.

1.2

Step	Original Dates	Revised Dates	Comment
Training for all relevant staff and members	Ongoing from March 2009	Ongoing from March 2009	On target
Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet	September to October 2009	September 2009 to <i>February 2010</i>	Slipped due to changes to guidance issued.
Develop skeleton Statement of Accounts under IFRS	September to December 2009	<i>January to February 2010</i>	Slipped due to changes to guidance.
Obtain information required to restate 1 April 2009 balance sheet	March to November 2009	<i>September 2009 to February 2010</i>	Slipped due to changes to guidance issued.
Identify any impact on budgets	March to September 2009	March to <i>December 2009</i>	Scottish Government advice imminent
Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	September 2009 to January 2010	September <i>2009 to March 2010</i>	Slipped due to changes to guidance issued.
Implement systems and procedural changes	September 2009 to February 2010	<i>April 2010 to September 2011</i>	On target
Restate 2009-2010 accounts in parallel with main 2009-2010 accounts process	June 2010 to December 2010	June 2010 to December 2010	On target
Produce 2010 - 2011 accounts on IFRS basis	April 2011- June 2011	April 2011- June 2011	On target