

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS AND AUDIT COMMITTEE

INFORMATION

Agenda Item No

meeting date: 25 NOVEMBER 2009
title: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
UPDATE
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To inform members of the current position of this council with regard to the transition to International Financial Reporting Standards (IFRS).

1.2 Relevance to the Council's ambitions and priorities:

- Whilst not directly linked to the council's ambitions, this report links most closely with the overarching ambition to be a well-managed council providing efficient services based on customer needs.

2 BACKGROUND

2.1 The annual financial statements for this council and all other local authority entities are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UK GAAP).

2.2 In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, local government bodies are to move to preparing their financial statements using International Financial Reporting Standards (IFRS). These standards will be adapted as necessary for the public sector.

2.3 The 2010/11 financial year will be the first year for IFRS-based local authority accounts, but prior to that date we will need to prepare for the transition to this new basis.

2.4 Even though IFRS is to be effectively implemented in the 2010/11 financial year there will be a stepped transition to the production of the council's statement of accounts on a solely IFRS basis. There are three key stages in this transition:

- Restate the opening balance sheet as at 1 April 2009 to comply with IFRS
- Prepare the accounts for the 2009/10 financial year in accordance with UK GAAP and also restate these accounts to comply with IFRS meaning that the 2009/10 financial statements will be prepared in both UK GAAP and IFRS formats
- Prepare the 2010/11 financial statements on an IFRS basis only

3 CURRENT POSITION

3.1 Attached at Annex 1 is a timetable of the key tasks to be carried out in the transition to preparing the financial statements on an IFRS basis.

3.2 A number of the initial tasks have been carried out such as training and attendance at seminars which have discussed the implementation of IFRS. However, as the exact details of how IFRS is to be implemented in Local Government has not been finalised it has been difficult to continue preparations in great detail.

- 3.3 Consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (Based on IFRS) concluded in September. A copy of the final version of this code has now been ordered, but will not be available until 16 December 2009.
- 3.4 Key staff that will have an input in to the transition have been identified and inevitably centre around the financial services section, but also includes the council's legal officer in respect assisting in the review of the treatment of leases.
- 3.5 The impact of the transition on our financial systems will be minimal with no upgrades being required. However, there will be a need to re-categorise areas of the financials system in order to enable the financial statements to be produced under both UK GAAP principles and IFRS.
- 3.6 The council has recently purchased asset management software which once fully implemented will greatly assist property management, legal services and financial services. The software will also assist in the implementation of IFRS and the changing method of accounting for fixed assets.
- 3.7 Discussions have taken place with neighbouring authorities on the sharing of external resources, with PriceWaterhouseCoopers having been approached. The council is looking to obtain this external resource for no charge through the possible use of service credits which may be due to the council. This is pending the outcome of a challenge that has been made to HM Revenue and Customs in respect of VAT for what are known as Fleming claims.
- 3.8 A review of the financial statements will be needed to ensure that they are correctly restated against the IFRS. There will be varying levels of impact on the different elements of the statements.
- 3.9 One of the key changes under IFRS is the accounting treatment of Private Finance Initiatives (PFI) accounting. However, as this council do not have any assets under PFI this major change will not have any impact in the transition.
- 3.10 Under IFRS employee benefits such as untaken annual leave, flexitime and lieu time at the end of the financial year must be accounted for. Work has already been undertaken in this area for the opening balance as at the 1 April 2009 in preparation for the comparatives that will be required.
- 3.11 As highlighted at previous meetings it is important that we engage with our external auditors throughout the transition period to establish any audit trail or working paper expectations, materiality considerations, preliminary views on accounting treatment, audit timetable and arrangements for ongoing communication. Following discussions with our external auditors it has not been possible to include their key deadlines in the plan at annex 1 as these are not clear at this point in time. Consequently, some of the dates listed are estimates, and are likely to move as the implementation progresses.

4 CONCLUSION

- 4.1 Introduction of IFRS is a major change to public sector accounting and due to the nature and complexity of the conversion to IFRS adopting a structured approach to its implementation should ensure a smooth transition.
- 4.2 Although the council's 2010/2011 statement of accounts will be the first to be published under the new IFRS, there is much work to be carried out prior to that date such as the preparation of comparatives.

- 4.3 Compliance with the requirements of IFRS is undoubtedly a significant project for the council. The continued sharing of experiences with neighbouring authorities and investigation of the opportunities that are available for shared resources will help in the transition and implementation of IFRS.

LAWSON ODDIE
FINANCIAL SERVICES MANAGER

AA22-09/LO/AC
13 November 2009

IFRS Implementation Project Plan

Task	Dates
Identify key areas of impact	Completed: <ul style="list-style-type: none"> • Leases • Tangible assets • Employee benefits
Identify key staff	Completed: <ul style="list-style-type: none"> • Director of Resources • Financial Services Manager • Technical Accountant • Senior Accountants • Legal Officer
Staff training on IFRS	Ongoing <ul style="list-style-type: none"> • A number of seminars have been attended and further attendance is envisaged over the coming months • Continue to review opportunities for shared training with neighbouring authorities and countywide
Identify and implement any systems or procedural changes	Completed: <ul style="list-style-type: none"> • No fundamental changes required to the financials system Ongoing <ul style="list-style-type: none"> • Implementation of asset management system will assist in the implementation of IFRS and the changing method of accounting for fixed assets – training dates 17/18 November 2009 • Review of the procedures for involvement of the finance section in any leases that are entered in to.
Identify and obtain the key information needed to restate the accounts 1 April 2009 balance sheet and the 2009/10 accounts	Ongoing <ul style="list-style-type: none"> • All records of untaken annual leave, lieu time and flexitime at 1 April 2009 have been received and preliminary calculation have been undertaken. • Continuing review of leases with legal officer
Progress Report to Accounts and Audit Committee	November 2009
Identify likely impact on budgets (if any)	November 2009 – January 2010
Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	December 2009
KEY MILESTONE	1 April 2009 Balance sheet restated (Dec 2009)

Task	Dates
Compile 2010/11 budget on IFRS basis, building on the restatement of the balance sheet and with reference to the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (Based on IFRS)	October 2009 – January 2010
KEY MILESTONE	2010/11 Budget Approved (February 2010)
Develop a skeleton Statement of Accounts under IFRS	January – March 2010
KEY MILESTONE	1 April 2009 Balance Sheet Audited (Apr 2010)
Progress Report to Accounts and Audit Committee	March 2010
Restate 2009/10 accounts in parallel with the main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	April 2010 – December 2010
Progress Report to Accounts and Audit Committee	June 2010
KEY MILESTONE	2009/10 Accounts Restated (Dec 2010)
Submission of 2009/10 WGA on IFRS basis	End September 2010
Progress Report to Accounts and Audit Committee	September 2010
Progress Report to Accounts and Audit Committee	November 2010
Produce 2010/11 accounts on IFRS basis	April 2011 to June 2011
Progress Report to Accounts and Audit Committee	March 2011
KEY MILESTONE	2010/11 Accounts approved by Accounts and Audit Committee (June 2011)
Audit Commission – audit of first IFRS Accounts	July 2011 – September 2011
KEY MILESTONE	2010/11 Accounts audited and approved by Accounts and Audit Committee (September 2011)