

Committee:	Performance Select Committee	Agenda Item
Date:	1 February 2011	8
Title:	International Financial Reporting Standards (IFRS) – Progress Report.	
Author:	Margaret Donaldson Interim Accountant	Item for Note
	Stephen Joyce Assistant Chief Executive – Finance	

Summary

- 1 The purpose of this report is to update Members on the implications and progress to date, in preparing the 2010/11 Statement of Accounts under International Financial Reporting Standards (IFRS).

Recommendations

2. That Members note:
 - a. the resource requirements in order to comply with IFRS
 - b. the progress made to date
 - c. the ongoing arrangements to ensure that key deadlines, accounting requirements and audit arrangements are complied with between now and 30 September 2011.

Background Papers

3. International Reporting Standards.

Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (The Code) and associated Guidance Notes – published by CIPFA/LASAAC.

Various Audit Commission, CIPFA and PricewaterhouseCoopers publications.

Impact

Communication/Consultation	None
Community Safety	None identified
Equalities	None identified
Finance	Detailed in the report.
Health & Safety	None identified

Legal implications/ Human Rights	Under the Accounts and Audit Regulations 2003 (as amended), the Council has responsibility to: <ul style="list-style-type: none"> • Approve the Statutory Accounts for 2010/11 no later than 30 June 2011, and • Publish the audited Statutory Accounts for 2010/11 no later than 30 September 2011. In line with the requirements of 'The Code'.
Sustainability	None identified
Ward-specific impacts	None identified
Workforce/Workplace	None identified

Background

- 4 In preparing the 2009/10 Statutory Accounts, Local Authorities followed the requirements of UK Generally Accepted Accounting Principles (UK GAAP). In order to improve financial reporting consistency and comparability on a global scale, the Government has decided that all government accounts will be prepared using IFRS. The Chancellor's 2007 Budget announcement introduced these proposals.
- 5 Government departments and the NHS have already implemented IFRS based statutory accounts. Under 'The Code' issued by CIPFA/LASAAC Local Authorities are expected to implement IFRS accounting requirements with effect from 1st April 2010.

Financial Impact

- 6 In order to limit the financial impact of the accounting changes on the Council Tax, Central Government has introduced various statutory overrides in order to give Local Authorities financial protection on their General Fund and Housing Revenue Account bottom lines. For example, under IFRS the accounts have to include the cost of untaken annual leave (if material), but the statutory override means this is taken out again so there is no impact on the bottom line or the Council Tax payer.
- 7 The estimated cost of implementing IFRS, excluding officer time, is £31,000.

Organisational Impact

- 8 Preparing the Statutory Accounts under IFRS will introduce both accounting and presentational changes, and significantly increase the level of disclosure required. Other sectors have experienced a 50% increase in the size of the statutory accounts publication.
- 9 To present a 'True and Fair' reflection in the Accounts, officers will be required to take a view on not only the materiality of transactions but also the form and nature of such transactions.

- 10 A key example of this change is found in accounting for lease arrangements. Factors such as the period of rental in comparison to the asset's useful life and the entity realising the risks and rewards are key considerations in deciding whether for the Local Authority, the lease is an operating lease, and therefore accounted for in the Comprehensive Income and Expenditure Statement; rather than a finance lease, where a liability needs to be carried in the Balance Sheet.
- 11 The required change in accounting arrangements will result in a review of the Council's systems/data and involve many areas of the Council; especially HR, Legal, as well as Finance. It is essential that the implementation of 'The Code' is seen as a Council wide project in order to meet stringent governance, audit and reputational expectations associated with this major change.

Implementation Arrangements

12 Impact Assessment

In November 2010, a review of the Code's requirements and its impact on the Council's financial arrangements was drafted, to facilitate robust project management; identify relevant work streams, allocate resources and determine information needs from specialist areas, both within the council and externally (for example Valuers). The assessment identified the following key areas of risk:

- accounting for Property, Plant and Equipment,
- accounting for Lease arrangements,
- accounting for Government Grants and Contributions and
- the extensive disclosure requirements in comparison to UK GAAP.

In all these areas the resources required to identify the relevant transactions, evaluate the arrangements made and technically account for the arrangement will be substantial. In order to meeting stringent audit and publication deadlines advice from both external and internal experts will need to be coordinated and provided on a timely basis, to the required standard.

A headline project plan is detailed at Appendix A and takes into account the External Auditors' timetable in relation to the audit of the 2010/11 Statutory Accounts. The first key deadline will be the preparation of the transitional balance sheets and a set of skeleton financial statements, to be audited at the end of March 2011.

13 Progress to date

Accounting for Property, Plant and Equipment

Arrangements are in place for the Property section of Braintree Council to assist in providing a robust asset register for 2010/11. This work is expected to be completed by early February 2011 and will enable finance officers to reclassify assets within the balance sheet in line with IFRS rules. In addition arrangements have been made for an external Valuer to value all the Council's land and property assets (General Fund and Housing Revenue Account) in line with IFRS principles and this work has been scheduled for completion by the second week in March 2011 at the latest.

Accounting for Leases

IFRS has brought in a major change in the way Councils account for lease arrangements, which can result in change in classification between operating and finance lease; resulting in a major change in accounting rules and thus potentially impacting the Council's Revenue Accounts and Balance Sheets. Statutory overrides will ease the impact of these accounting rule changes for the General Fund and Housing Revenue Account bottom lines.

On preparing the 2009/10 Statutory Accounts, 16 waste vehicles were identified as acquired under a finance lease, resulting in a financial liability being included on the Council's balance sheet.

An initial review of the Council's contract and lease arrangements has identified the following arrangements for further review:

- the contract for the provision of the Supaloos
- lease of the Indoor Bowls hall at Peaslands Road Saffron Walden to Turpin's Bowling Club
- Lease of Thaxted Guildhall from Essex County Council
- Lease of 1st Floor link block at Hatherley House Saffron Walden from Essex County Council.

An in-depth review of these arrangements will need to be undertaken and the appropriate accounting requirements and statutory overrides applied.

Accounting for Accrued Annual Leave

The council is now required to make a provision in the Accounts for employees' leave entitlement carried forward as at the end of the financial year. The necessary work has been undertaken and a robust audit trail provided in order to substantiate the provision. Finance officers will need to take a view as to whether the provision has a material impact on the financial understanding reported within the statutory accounts.

Revised Accounting Policies

Accounting policies for the Council under IFRS have now been drafted and will provide parameters for the accounting work to be undertaken. The accounting policies will be finalised as the various book entries are completed.

Already implemented

Some key IFRS accounting and disclosure requirements have already been implemented as part of the preparation of the 2009/10 Statutory Accounts:

- accounting and disclosure in relation to Council employees' pension arrangements
- accounting for the Council's 3 Private Finance arrangements
- accounting and disclosure for Financial Instruments
- agency accounting arrangements for the Collection Fund.

There are no outstanding audit actions in relation to these areas and the reporting requirements will only marginally change under 'The Code'. In addition, officers progressed the IFRS requirements for Cash and Cash Equivalents and Assets Held for Sale; within the 2009/10 accounts.

14 Ongoing technical advice and guidance

Through the following networks, finance officers will continue to keep up to date with any technical clarification available up until the finalisation of the draft Statutory Accounts:

- CIPFA Technical Information Service, Financial Advisory Network and seminars,
- Audit Commission seminars and associated online bulletins, and
- PricewaterhouseCoopers seminars, guidance and peer review.

These arrangements are now even more important as the practitioners guidance issued by CIPFA was only released on Christmas Eve and the practical issues of implementation are now being highlighted. In addition, the Practitioners Checklist (published by CIPFA) and used by practitioners for final verification of the draft accounts is scheduled to be published in late May 2011, two months later than usual.

15 Liaison with External Audit

Ongoing engagement with the Council's External Auditors is essential to the effective and timely implementation of the IFRS arrangements and associated publication of the Statutory Accounts, assisting the effective allocation of audit and officer time. Early discussion and agreement of accounting application and disclosure proposals should prevent last minute material changes to the financial statements and provide a robust framework to the delivery process. This framework of partnership working will bolster the other networking arrangements in place to assist the Council to manage such a major change in accounting arrangements.

16 Members' Training

In view of the material change in the organisation's financial reporting; Members will need a more in-depth briefing on the practicalities and resulting outputs that IFRS will bring to the financial statements. An opportune time for such a briefing would be prior to the Performance Select Committee Meeting in late April 2011. At this point significant progress will have been made in relation to the draft financial statements. Mindful of May 2011 election and changes to the committee structure, the newly constituted audit committee will need to have some training before the draft accounts are submitted for approval at the end of June.

17 Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The draft Statutory Accounts do not materially comply with the requirements of 'The Code', resulting in an adverse ISA 260 report (Communication with Those Charged with Governance) and associated reputational impact.	2 = Little or no likelihood Arrangements within the body of the report are being implemented to reduce the likelihood of this risk.	3 = Significant impact – action required Statutory requirement, adverse Audit Report. Delayed or qualified audit opinion.	Various networking arrangements are in place to ensure that Finance Officers are kept up to date technically with the issues involved in the various work streams. Resources are continuously reviewed to ensure that deadlines are met.

- 1 = Little or no risk or impact
- 2 = Some risk or impact – action may be necessary.
- 3 = Significant risk or impact – action required
- 4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Appendix A

TIMETABLE – Key Deadlines	
Dates	Details
January to early March 2011.	Finalisation of Transitional Balance Sheets and preparation of draft Financial Statements.
31 st January to 9 th February and 21 st March to 21 st April.	Pre Statement audit.
30 th March to 8 th April 2011.	IFRS transition audit.
February 2011 to June 2011.	Completion of Closure of Accounts timetable. Finalisation of Draft Statutory Accounts and associated working papers.
30 th June 2011	Draft accounts approved by Audit Committee.
Dates to be confirmed	Statutory Accounts Audit
30 th September 2011	Finalisation (including re-approval by Audit Committee) and publication of Statutory Accounts with audit opinion.