

Subject: Update on IFRS implementation

Status: For Publication

Report to: Audit & Accounts Committee

Date: 3rd December 2009

Report of: Finance Manager

Portfolio

Holder: Finance and Resources

Key Decision: No

Forward Plan

General Exception

Special Urgency

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to inform members of the progress made to date and plans in place to implement the International Financial Reporting Standards (IFRS).
- 1.2 The Council has a statutory duty to produce its 2010/11 final accounts under the new IFRS standards and to do this accurately it must be in a position to re-state the Balance Sheet as at 31st March 2009 as if IFRS had always existed.
- 1.3 Given previous experience in the Health Authorities, and other countries around the world, this is envisaged by the Audit Commission and CIPFA as being a major project, requiring involvement from staff from many departments throughout the Council, hence it should be planned well in advance and progress monitored carefully.

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report impact directly on the following corporate priorities and associated corporate objective.

- **Value for Money Services** - *a well-planned project will help to minimise any extra costs from the data gathering and conversion process, allowing the Council to develop a strong audit trail which provides the surety of completeness and compliance for the audit of accounts in 2010/11.*

3. RISK ASSESSMENT IMPLICATIONS

3.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

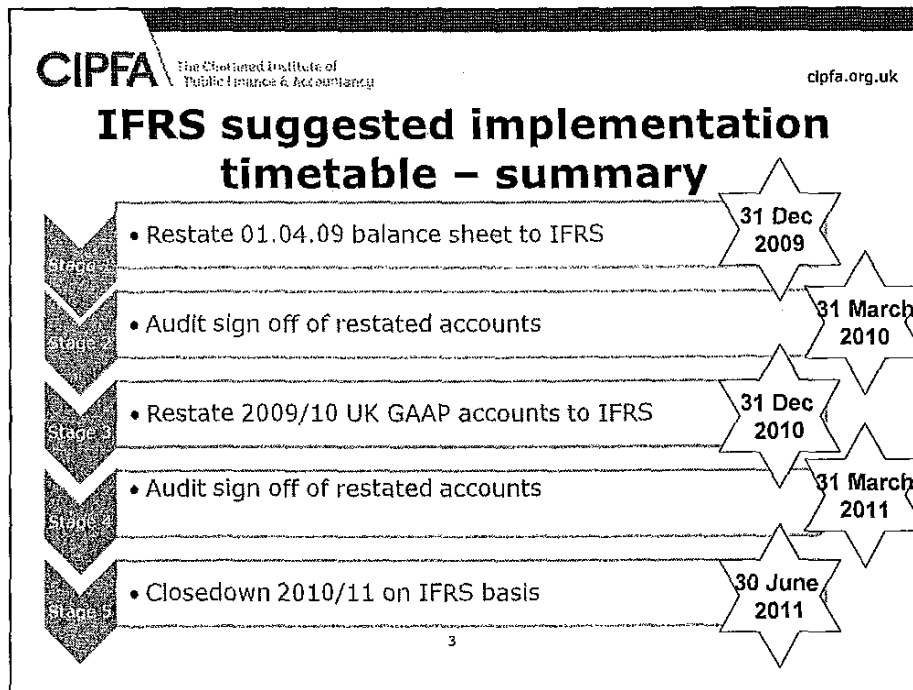
- *Audit of Accounts 2010/11*: Though this seems a long way off, some of the data required has to be collected in relation to the accounts position at 31st March 2009. Failure to plan and gather the required data could impact adversely on the auditor's opinion of the 2010/11 accounts. Ultimately this would affect the Use of Resources score and potentially lead to an increase in audit costs and a reputational risk.

4. BACKGROUND AND OPTIONS

4.1 The Chancellor's announcements in the 2007 and 2008 Budgets introduced the requirements for local government bodies to adopt IFRS for 2010/11, including the re-statement of the 2009/10 comparators. To accomplish the latter, the council must be able to provide the movement in the Balance Sheet Notes during 2009/10, therefore the opening position for 2009/10 (ie closing balances 2008/09) must be in exactly the same format.

4.2 The Finance Manager has attended several training courses on this subject provided by CIPFA and others, and preparation progress is a standing item on the agenda of the Lancashire Chief Financial Officers Subgroup meetings in order to share problems and solutions.

4.3 CIPFA has produced a suggested timetable to ensure that both Councils and the Audit Commission can fit the IFRS conversion work around their normal annual work plans, thereby reducing the risks of incurring costs of extra support to calculate the requirements during the 2010/11 accounts process.



4.4 As members will see, the first suggested deadline is to restate the opening balances 1st April 2009 by the end of the calendar year, thereby allowing three

months for the Audit Commission to review the methodology, audit trail and concluding restated Balance Sheet before the commencement of their audit work for the 2009/10 accounts.

4.5 This would then be followed by a similar re-statement exercise in autumn 2010, after the 2009/10 accounts have been completed under the current Statement of Recommended Practice requirements. This should again be reviewed by auditors ahead of the commencement of the 2010/11 closure of accounts under full IFRS principles in April 2011.

4.6 How prepared is Rossendale Borough Council?

4.6.1 Do we have a project plan in place for IFRS transition?

4.6.1.1 Please see Appendix 1

4.6.2 Do we have a project manager and wider, multi disciplinary team in place to deliver the project plan?

4.6.2.1 The project is being led by the Finance Manager, working closely with the Property Services Manager. Both staff have received the required training over the last 12 months from their respective professional bodies to ensure that adequate preparations are being put in place.

4.6.2.2 The wider team is now being drawn together to ensure that the data gathering exercise will be complete and accurate. This includes other colleagues within property services, legal, procurement and HR sections. Later this will also include selected staff within the operations team.

4.6.2.3 Plans are underway for Rossendale to work with three neighbouring authorities imminently to deliver a joint initial working group meeting at which outside specialist training will be delivered. This will allow colleagues from each discipline to discuss issues specific to their own areas, developing contacts discussing best practice.

4.6.3 Is there understanding of the importance of the project at senior level - Chief Exec, Head of Finance, Executive Management Team?

4.6.3.1 The Executive Management Team were informed of the outline issues and needs in December 2008 and will be brought up to date again in late November 2009 in line with this report. Thereafter, they will be updated as each main task group is completed.

4.6.3.2 The introduction of IFRS was included within the Finance and Property Services Business Plan for 2009/10 onwards and progress is captured monthly through the Council's performance management system, Covalent.

4.6.3.3 The Head of Finance is also kept up to date with progress through one-to-one meetings with the Finance Manager and the Property Services Manager on a 6-weekly basis.

4.6.4 Have Audit & Accounts Committee and Cabinet been informed of the IFRE project plan?

4.6.4.1 This report is the first of several planned information reports. Members should receive regular updates on each of the key tasks at each quarterly Audit & Accounts Committee as per the project timetable. (see Appendix 1).

4.6.5 Have you got a comprehensive list of your lease agreements?

- 4.6.5.1 This is one area in which records will need to collated between the legal, property services and operational services staff.
 - 4.6.5.2 Operating and Finance leases need to be reviewed on an individual basis to ensure that ultimate responsibility and ownership of assets is correctly assigned in order to determine the nature of the lease under the slightly different IFRS rules.
 - 4.6.5.3 Gathering details relating to some operating leases will require work with staff in the operations and procurement sections to ensure completeness – the advantage for Rossendale is that the relative size of the organisation makes this exercise simpler since vehicle operating leases are dealt with by only one member of staff.
 - 4.6.5.4 Consideration will also be given to the potential for any embedded leases of assets within service contracts. Such leases may occur if assets are used for the sole purpose of delivering a service by a third party, eg they carry our logo.
- 4.6.6 Do you have information on leave entitlements at 31.03.09?
- 4.6.6.1 One area of change which is creating a major issue for some authorities is the accrual for holiday entitlement not taken at the 31st March. At Rossendale Borough Council staff can carry forward up to 5 days leave and may have accrued anywhere between -8 and +10 hours flexitime (where applicable). Advance training and planning has allowed Rossendale payroll staff to collect accurate data on the leave each employee has carried forward and thereby the individual and collective value has been calculated.
- 4.6.7 Have you reviewed your assets against IFRS definitions to ensure they are recorded in the right category?
- 4.6.7.1 The IPF Asset Management software system provides the Council with an excellent database for corroborating future capital accounting calculations. Such systems have been advocated to councils across the country during 2008/09 as a requirement to satisfy the complexities of IFRS fixed asset accounting.
 - 4.6.7.2 The implementation process of the IPF system has forced a lot of work to be completed already by the property services team to create a more comprehensive asset register, including the separation of land and buildings components within each asset.
 - 4.6.7.3 Work has been ongoing during 2008 and 2009 to strengthen the valuation basis for assets as their valuation renewal date is reached in order to indentify other major components with significantly different life spans. This will allow components such as flat roofs, doors & windows, lifts etc to be depreciated over separate timescales to the building's shell. This requirement will need to be rolled out across all assets from 2010 under IFRS.
 - 4.6.7.4 Work is now commencing to ensure that assets formerly classified as "Surplus for Sale" meet the tighter guidelines for this definition under IFRS. For assets in this classification at 31st March 2009 there must be viable plans in place for disposal during the 2009/10 financial year.
 - 4.6.7.5 Work also needs to begin on checking that each Investment asset continues to meet the IFRS definition, specifically this may result in some industrial units being reclassified to operational assets if either they are occupied by Council service departments or they are held to provide economic

development resources, rather than as a means of gaining investment income.

4.7 What differences will Members notice under IFRS?

4.7.1 As well as detailed changes above Members will notice that the appearance of accounts under IFRS will change. The table below shows the new order and title for the main statements within the accounts.

Order	Old name	IFRS name	Details
1	Statement of Movement in General Fund Balance	Statement of changes in Equity	Statement of movement in reserves
2	Income and Expenditure Account plus Statement of Total Recognised Gains and Losses	Statement of Comprehensive Income	Comprehensive income and expenditure statement
3	Balance Sheet	Statement of Financial Position	Balance Sheet
4	Cash Flow Statement	Cash Flow Statement	Cash Flow Statement
5	Notes to the Accounts	Notes to the Accounts	Notes to the Accounts

4.7.2 It is anticipated that the volume of notes may increase by up to 40%, but some changes have already been implemented by councils within the 2007/08 and 2008/09 accounts, such as the Financial Instruments notes and the Pensions notes.

4.7.3 At present the only real financial effect envisaged is the impact on General Fund Balances of the accrual for holiday pay. Once the opening accrual for 31st March 2009 is made, creating an additional creditor liability of around £65k, the year-on-year change to this accrual is likely to be minimal, but any changes would affect the General Fund Reserve Balance. Some councils envisage significant changes may occur where Easter bank holidays and school holidays occur before the 31st March financial year-end.

4.7.4 There may be some minor impacts on depreciation and interest payment if leases change classification. Whereas these would affect the Statement of Comprehensive Income, regulations prevent depreciation affecting the Council Tax, therefore it should not impact upon the General Fund Balance.

4.8 External Support

4.8.1 Whilst every effort is being made to ensure that the basic data and calculations can be managed within current resources, it is suggested that some external professional advice should be sought.

- 4.8.2 As at paragraph 4.6.2.3 above, negotiations are under way to arrange a joint initial meeting of the wider working groups for 4 of the local authorities (Rossendale, Hyndburn, Pendle and Ribble Valley) which will be possibly facilitated by PriceWaterhouseCoopers (PwC).
- 4.8.3 It is also suggested that the resulting calculations, considerations and converted Balance Sheet are subjected to a critical review by an outside professional body ahead of the Audit Commission review. Such a 'critical friend' review would provide assurance for both Members and Staff that the process and results are suitable for submission to the Audit Commission.
- 4.8.4 The advantage of using PwC is that this Council, and most of the others, already have a working arrangement with this company, thereby helping to minimise costs.

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

- 5.1 Early planning for this change should reduce the need for external support at extra cost. However, bearing in mind the significant focus of the Audit Commission on this project, it is recommended that some professional support is obtained, funded from within existing resources for professional financial/audit support.
- 5.2 As the report suggests this is planned to facilitate the initial project team set-up and provide a critical friend analysis of the re-stated Balance Sheet. An estimate of the value of this support should be available by the time of this Committee.

6. MONITORING OFFICER

- 6.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

7. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

- 7.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

8. CONCLUSIONS

- 8.1 That current plans for the implementation of IFRS standards are well under way and a project plan is in place.

8.2 That some external support would be beneficial to provide Senior Officer and Member assurance on the process and results of the implementation.

9. RECOMMENDATION(S)

9.1 That this update report be accepted and progress noted.

9.2 That the engagement of PwC for project initiation and assurance is approved (subject to an estimate of the values of such work verbally at the meeting) and that the use of the VAT credit with PwC be applied to this service.

10. CONSULTATION CARRIED OUT

10.1 Audit Commission

11. COMMUNITY IMPACT ASSESSMENT

Is a Community Impact Assessment required ~~Yes~~ / No

Is a Community Impact Assessment attached ~~Yes~~ / No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required ~~Yes~~ / No

Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

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Background Papers	
Document	Place of Inspection
Final Accounts working papers	Finance Department, Futures Park, Room 222