AGENDA ITEM 4

Audit Committee	
Date: **16 March 2010**	

Countdown to IFRS – Implementation in Local Government

Report by Chief Financial Officer

Enquiries to:

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1. Purpose of the report and Decision Areas / Recommendations

The purpose of this report is to consider the matters raised by the Audit Commission in their paper ‘Countdown to IFRS – Implementation in Local Government’, which presents the findings of a survey undertaken in November 2009 to assess local government’s readiness for the transition to reporting in compliance with International Financial Reporting Standards (IFRS).

RECOMMENDATIONS

It is recommended that the Committee:

(i) Notes the recommendations in the Audit Commission’s ‘**Countdown to IFRS – Implementation in Local Government**’ report.

(ii) Monitors progress with the transition to IFRS based accounting.

2. Legal implications

The Council has a statutory duty to prepare its accounts in accordance with proper accounting practice and to have those accounts audited in accordance with the Accounts and Audit Regulations.

3. Finance and resource implications

The Council will be required to account for some transactions and balances differently under IFRS. Changes to legislation / statutory guidance is anticipated, to mitigate the impact of these changes upon Council Tax.

Significant finance staff resource will be required to implement IFRS.

4. Corporate governance

There are no further issues that need to be brought to members' attention outside of those specific points included in this report.

5. Human Resource implications

There are no specific human resource issues arising from this report.

6. Risk implications

As noted in paragraph 2 above, if the accounts are not prepared on an appropriate basis, the Council will fail in its statutory duty to produce annual accounts in compliance with proper accounting practice. The production of the accounts, and the quality of those accounts, impact directly on the Council's CAA scores (Use of Resources).

7. Information Services implications

There are no specific information services implications arising from this report. However, the ability of the Council's existing financial systems (general ledger and fixed asset register) to produce or record the information required under IFRS will need to be considered as part of the implementation exercise.

8. Congestion impact

There is no impact on congestion as a result of this report.

9. Background

From 2010/11, local authorities' Statement of Accounts will be prepared under an International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting. A report was presented to the Committee on 25 September 2009 (**AC / 010 / 09**) which explained the implications for the transition to accounting in compliance with international financial reporting standards and outlined the process that we expected to follow for implementing the main accounting requirements.

At that time, the CIPFA IFRS-based Code of Practice on Local Authority Accounting had only been issued in draft. The Code has subsequently been formally published (in early January), and detailed guidance notes are expected to be published by September 2010.

10. Countdown to IFRS

10.1 Introduction

The Audit Commission paper '**Countdown to IFRS – implementation for Local Government**' draws upon evidence collected in November 2009 to assess local government's readiness for the transition to IFRS. The overall conclusion drawn by the Audit Commission is that that local authorities are falling behind the indicative timetable published by CIPFA and that, whilst this presents real risks, the position is not irretrievable if authorities take urgent action now.

10.2 Summary of recommendations

The Audit Commission's paper draws on the experience of the NHS and Central Government IFRS transition processes and identifies a series of key success factors for an efficient transition to IFRS. The following table summarises these matters and the current ECC position:

Key Success Factors	ECC Position:
Authorities need to ensure themselves that the transition is on track:	
Engagement of the Audit Committee is crucial.	A report was presented to the Committee on 25 September 2009 (**AC / 010 / 09**) which explained the implications for the transition to accounting in compliance with international financial reporting standards and outlined the process that we expected to follow for implementing the main accounting requirements.

Key Success Factors	ECC Position:
	There is an ongoing commitment built into the IFRS project plan to keep the Audit Committee updated and this report provides an update on the latest position.
Early and continuing communication with external auditors.	Regular discussions have been held with the Audit Commission to agree risk-based approaches to the transition project. We will continue to discuss progress and key decision with the external auditors.
Risk assessment should be completed and maintained.	To date, no formal risk assessment has taken place. This will be addressed and the corporate risk register updated.
Transition Timetable / Resources:	
Project plan is essential.	A high level timetable / project plan was included in the IFRS report presented to the Committee on 25 September 2009 (**AC / 010 / 09**). This is supported by a detailed IFRS transition project plan which is maintained and updated weekly by the Corporate Finance team. This assigns deadlines and officer responsibility for individual tasks.
Early assessment of resources and skills.	This was completed as part of the IFRS impact assessment which was completed in January 2009.
Detailed budget to monitor transition costs.	There is no specific budget provision for transitional costs, but funding needs have been addressed as required.
Knowledge	
If external advisers are used (63% of authorities are using or planning to use external advisers), arrangements should be in place for an effective transfer of knowledge.	This is built into our IFRS transition approach. For example, we are in the process of appointing an external adviser to assist with accounting for PFI schemes under IFRS. Included within the draft terms of reference is the requirement for a detailed hand-over of knowledge.
Provision of training to both finance and non-finance staff.	Three IFRS workshops were held between December 2009 and January 2010 for finance staff. Approximately 50 members of staff attended these events.

<table>
<tr><th>Key Success Factors</th><th>ECC Position:</th></tr>
<tr><td></td><td>This training will be supplemented by the provision of IFRS briefing notes that will provide written guidance on the key accounting impacts of IFRS.</td></tr>
<tr><td colspan="2">Assessment of technical impact</td></tr>
<tr><td>Early analysis of how IFRS will impact on authority’s systems, structures, people and financial reporting.</td><td>This was performed as part of the IFRS impact assessment in January 2009. A summary of the key financial reporting impacts was included in the report presented to the Audit Committee in September 2009.</td></tr>
<tr><td>Initial impact assessment to be updated regularly for accounting developments.</td><td>The Council’s impact assessment and project plan are continuously updated for CIPFA guidance on IFRS as it is issued, including the final IFRS Code which was published in January 2010.</td></tr>
<tr><td>Identify all arrangements that may fall under ‘IFRIC 12: Service Concession Arrangements’ and obtain necessary information to assess accounting treatment.</td><td>This is particularly relevant as CIPFA has early opted IFRIC 12 for the 2009/10 accounts. Officers are currently locating the information required to re-assess the existing PFI schemes and to identify other arrangements that may fall under the scope of IFRIC 12.

An external adviser is being appointed to assist with the review of the accounting treatment.</td></tr>
<tr><td colspan="2">Council-wide engagement</td></tr>
<tr><td>Transition must be supported by senior management.</td><td rowspan="3">Individuals within Asset Management, Procurement, Payroll and HR have assisted in the transition to date.</td></tr>
<tr><td>Effective leadership and project management crucial to achieve value for money.</td></tr>
<tr><td>Organisation wide approach must be taken (not just a finance team issue).</td></tr>
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10.3 IFRS Transition progress update

The IFRS report presented to the Committee on 25 September 2009 (**AC / 010 / 09**) included an outline project plan and timetable based on CIPFA guidance. Since the report was produced a number of key actions have been implemented. These include:

- IFRS accounting policies have been drafted;
- Employee benefit accrual data has been collated and the accrual calculated;
- Pro-forma IFRS accounting statements (including notes and accounting policies) have been drafted;
- IFRS compliant Fixed Asset Register has gone live;
- Year end closedown instructions for 2009/10 have been updated for new IFRS requirements
- Training session have been held run for finance staff; and
- Briefing notes have been drafted for key technical accounting areas, e.g. leases, capital expenditure and employee benefits.

Despite these developments, achieving the targets of restating the 2009/10 accounts on an IFRS basis by December 2010, and producing fully IFRS compliant accounts for 2010/11, remains a challenging objective. As identified in the Audit Commission report, the resources required for a successful implementation are significant and the Council is currently behind its indicative timetable. The key areas of focus are:

- Identifying and re-assessing lease arrangements and arrangements containing a lease under IFRS – this is in progress with the assistance of Asset Management and the Council's valuers, Lambert Smith Hampton.
- Re-assessment of PFI accounting treatment – an external adviser is currently being appointed to assist with this specialised area.
- Completion of IFRS statement of accounts model within the Council's general ledger – this is in the process of being constructed following the release of the IFRS Code in January 2010.
- Full consideration of impact of component accounting on the Council's property assets – this is in progress with the assistance of property services and the Council's valuers.

Appropriate structures and processes are in place for the IFRS transition process but continued commitment and resource is required to ensure that the long-term objective of producing fully-compliant IFRS accounts for 2010/11 is achieved.