

INFORMATION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 13

meeting date: 24 MARCH 2010
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 current financial statements are produced under accounting policies based on UK GAAP. 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).

2.2 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 A timetable of the key tasks for the transition to preparing the financial statements on an IFRS basis was reported to the last meeting of this committee in November. At this time it was highlighted that the exact details of how IFRS is to be implemented in Local Government had not been finalised making it difficult to continue preparations in great detail.

3.2 Attached at Annex 1 is an updated timetable of the key tasks to be carried out in the transition to preparing the financial statements on an IFRS basis. A meeting has been arranged with the Audit Commission to discuss their workplans on IFRS. This meeting will help to inform the Implementation Plan at Annex 1 and provide a clearer indication of their anticipated deadlines.

3.3 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.

- 3.4 A recent briefing paper from the Audit Commission entitled 'Countdown to IFRS' has been prepared following a comprehensive survey at the end of last year. The report identifies that only one in seven authorities were on track with the implementation of IFRS. The feedback from the Audit Commission for Ribble Valley following the survey was reported in the Annual Audit Letter and stated that *'the survey indicated that the Authority is preparing well for the implementation of International Reporting Standards'*
- 3.5 Following discussions with a number of other neighbouring authorities on the sharing of external resources a training course has recently been attended which was provided by PriceWaterhouseCoopers. This was attended by a number of the key staff that have been identified for the transition and included Estates and Legal staff in addition to those from financial services. Additional training was also provided at the beginning of February at a final accounts workshop provided by the Audit Commission.
- 3.6 The key areas of the implementation and our progress to date are shown below:
- **Lease Agreements**
The joint training that has been undertaken through PriceWaterhouseCoopers has aided the ongoing review of the future accounting treatment of many of the council's leases with the technical accountant and the legal officer working closely on this task. This work is currently ongoing.
 - **Property, Plant and Equipment Valuations**
The council is required to revalue its assets at least every five years and as a consequence the council's assets are being revalued within the 2009/10 financial year. The District Valuer is currently undertaking this task for the council. In future years it is envisaged that a rolling programme of revaluations will be undertaken each year. As an aside, the District Valuer who is revaluing our assets also attended the PriceWaterhouseCoopers IFRS joint training session.
 - **Component Accounting**
A requirement of IFRS is component accounting, whereby replacement of major elements (components) of assets must be accounted for and depreciated on their own asset life rather than that of the main asset itself. 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 component accounting.
 - **Reclassification of Assets**
Asset classification will be reviewed and changed to ensure that they comply with the IFRS guidelines
 - **Employee Benefit Accrual**
This information has been collated for the 1 April 2009 balance sheet and arrangements are in place to gather the same information during the year end process for the closure of the 2009/10 accounts and is included in the closedown timetable.
 - **Service Concession Arrangements (IFRIC 12)**
This applies to instances where the council may have granted a contract for the supply of public services to a private operator and the accounting arrangements for/ownership of the assets involved in the operation of the contract. The focus

here has mainly been on Public Finance Initiatives (PFIs); however, further guidance has identified that other arrangements which are not classified as PFI may be affected. Initial reviews show that there are no instances at this council which would be affected.

- **Financial Statements and Financial Systems**

A review of the financial statements will be needed to ensure that they are correctly restated. This is greatly aided by the flexibility of the financial systems where work is due to start on re-categorising different elements in order to enable the financial statements to be produced under both UK GAAP principles and IFRS.

4 CONCLUSION

- 4.1 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.
- 4.2 The introduction of IFRS is a major change to public sector accounting and also impacts on services areas other than finance. The extension of training to these other service areas has been well received and has better placed the council to embrace the changes needed and should enable a smooth transition.
- 4.3 Whilst a notable amount of work has still to be undertaken the council remains on course to implement IFRS within the required timeframe.

LAWSON ODDIE
FINANCIAL SERVICES MANAGER

AA9-10/LO/AC
16 March 2010

IFRS Implementation Project Plan

Task	Dates	
Identify key areas of impact	<ul style="list-style-type: none"> • Leases • Tangible assets • Employee benefits 	✓
Identify key staff	<ul style="list-style-type: none"> • Director of Resources • Financial Services Manager • Technical Accountant • Senior Accountants • Legal Officer 	✓
Staff training on IFRS	<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 	<i>Ongoing</i>
Identify and implement any systems or procedural changes	<ul style="list-style-type: none"> • No fundamental changes required to the financials system • 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. 	✓ ✓ <i>Ongoing</i>
Identify and obtain the key information needed to restate the accounts 1 April 2009 balance sheet and the 2009/10 accounts	<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 has been undertaken. • Continuing review of leases with legal officer 	✓ <i>Ongoing</i>
Progress Report to Accounts and Audit Committee	November 2009	✓
Identify likely impact on budgets (if any)	November 2009 – January 2010	✓
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	<i>Ongoing</i>

Task	Dates	
Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	April 2010	<i>Ongoing</i>
KEY MILESTONE	1 April 2009 Balance sheet restated (Apr 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)	