AGENDA ITEM: 9 Page nos. 107 - 119

Meeting	Audit Committee
Date	16 December 2009
Subject	**Introduction of International Financial Reporting Standards (IFRS)**
Report of	Interim Director of Finance
Summary	To inform Committee of the implications for the Council of the introduction of IFRS and to note progress to date.

Officer Contributors	Paul Stock – Assistant Director of Strategic Finance Maria Christofi – Interim Head of Strategic Finance Hayley Woolard – IFRS Project Accountant
Status (public or exempt)	Public
Wards affected	All
Enclosures	Appendix A - LAAP 80
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Hayley Woolard IFRS Project Accountant 0208 359 7135

1. RECOMMENDATIONS

1.1 That the Committee note the likely implications for the Council of the introduction and implementation of International Financial Reporting Standards (IFRS).

1.2 That the Committee note the progress to date.

1.3 That the Committee consider whether there are any areas on which they require additional information or action.

2. RELEVANT PREVIOUS DECISIONS

2.1 Audit Committee 29 June 2009 (Statement of Accounts 2008/09).

2.2 Audit Committee 29 September 2009 (Statement of Accounts 2008/09 Final).

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The implementation of International Financial Reporting Standards (IFRS) will enable readers of the Statement of Accounts to have a clearer understanding of the Council's financial position and enable closer comparison with other financial institutions including private sector companies.

3.2 The introduction of IFRS will further support the council in meeting its corporate priority to provide 'more choice and better value' to our residents as set out in the Corporate Plan 2009-10.

3.3 Additionally, the introduction of IFRS will support the priority theme known as 'a relentless drive for efficiency' of the council's Future Shape transformation programme.

4. RISK MANAGEMENT ISSUES

4.1 There is a definite risk if IFRS is not adopted of the council's statement of accounts being qualified and not complying with legal requirements.

4.1 The purpose of this report is to mitigate financial risks to the authority by identifying the consequences of the IFRS implementation at an early stage to enable members and officers to take corrective action if and when required and to prepare for the implications upon resources and reporting formats.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 It is not considered that this matter is likely to raise any concerns under the council's equalities policy or compromise any commitments outlined in Barnet's Equality Scheme 2007/08 – 2010/11.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 There are implications on staff in Human Resources and Property Services regarding the completion of various schedules; holiday pay and leasing. These can be managed within the current resources and hopefully the task of completing these schedules will lead to better working practices and data collection within these teams.

6.2 In 2007/08 an IFRS reserve was created to fund the implementation process.

7. LEGAL ISSUES

7.1 The Council has a statutory responsibility to provide a Statement of Accounts which complies with IFRS.

8. CONSTITUTIONAL POWERS

8.1 Within the Council's Constitution, the functions of the Audit Committee are detailed and include "to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance"

9 BACKGROUND INFORMATION

9.1.1 Listed entities in the UK private sector adopted IFRS in 2005. Experience shows that considerable effort was needed to convert to this new regime for public limited companies. Central Government and the NHS are currently in their comparative years for IFRS as they adopted the requirement the year prior to Local Government.

9.1.2 Under the Accounts and Audit (England) Regulations 2003 (as amended) the council's accounts must comply with proper practice. The regulations define this proper practice as the Local Authority Statement of Recommended Practice (SORP). Currently the SORP complies with UK Generally Accepted Accounting Practice and not IFRS.

9.1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) have announced that the first IFRS-based Code of Practice on Local Authority Accounting will be issued in December 2009. Consultation has been carried out on changing the governance framework for the issue of the code.

9.1.4 The impact of many of the IFRS's will be presentational with new terminology and statements being introduced and will significantly increase the level of disclosure notes required in the Statement of Accounts.

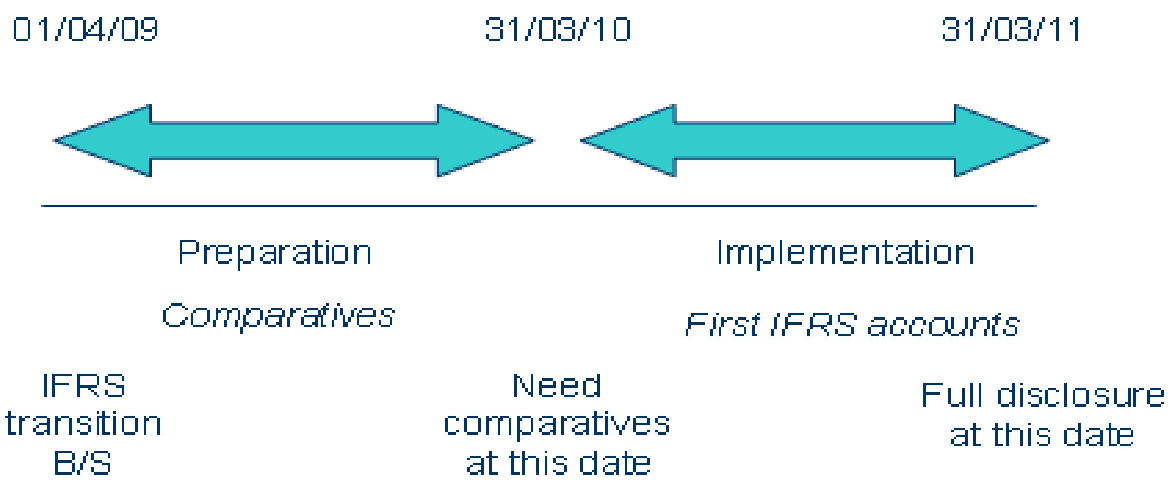
9.1.5 There are a number of areas which will have a significant impact on the accounts and a small number which could potentially have an impact on the council's general fund reserve or increase the demands on the Local Taxpayer. CIPFA has been discussing with Government officials the need to consider whether legislation is needed to offset any effect the move to IFRS might have on budget requirements.

9.1.6 This table shows the main issues to consider with the introduction of IFRS:

Significant Differences	Some Differences	No Significant Differences
• Fixed Assets • Leases • Format of Accounts • Employee Benefits	• Related Party Disclosures • Impairments • Intangible Assets • Investment Properties • Disclosures • Group Accounts	• Stocks • Post Balance Sheet Events • Government Grants • Provisions • Financial Instruments

9.2 THE TIMETABLE

9.2.1 In March 2009 CIPFA published Local Authority Accounting Panel (LAAP) Bulletin 80 which contained a high level implementation timetable, shown at Appendix A. A timeline is graphically illustrated below:



9.2.2 In order to be IFRS compliant in 2010/11 (which will include the production of the first statement of accounts under the new regime), it is a requirement under International Accounting Standard (IAS) 1 for first time adoption to produce 2 years of comparative balance sheets. This has required local authorities to begin the preparation and conversion to IFRS much earlier which has resulted in the transition date so far in advance of the first statement of accounts. Therefore the balance sheet at 1st April 2009 will require restatement on an IFRS compliance basis as part of the transition to IFRS accounting.

9.2.3 Preliminary discussions have taken place with Barnet's external auditors Grant Thornton regarding the approach to be taken and to determine what the new expectations are under IFRS. All authorities have been required to complete a questionnaire, the purpose of which is to inform the Audit Commission of progress including any examples of best practice which could be used to assist all authorities.

9.3 KEY AREAS

9.3.1 The areas where IFRS could have a significant impact are as follows;

Employee Benefits

9.3.2 This requires authorities to accrue for the employee benefits that have been earned by staff but not taken at the end of the financial year, such as annual leave. Officers have been compiling this information as part of the closure of accounts for 2008/09.

9.3.3 A key risk here is that there may be a revenue impact on the General Fund and Housing Revenue Account. CIPFA are investigating the potential for mitigating the financial effects of this accrual with further guidance expected in 2010..

Leases (including all contractual arrangements regarding assets)

9.3.4 For accounting purposes there are two types of leases; finance leases and operating leases. Operating leases are 100% revenue expenditure and finance leases are reflected on the Balance Sheet. These have payments split between capital expenditure and interest payments.

9.3.5 Under IFRS the rules for determining whether a lease is treated as an operating or finance lease have been significantly revised and more judgement is necessary. In addition to this there may be embedded leases within existing contracts, which are in the process of being identified.

9.3.6 All existing leases covering property and equipment will need to be reviewed as part of this work.

Fixed Assets

9.3.7 There are some significant changes to the way in which fixed assets will need to be accounted for under IFRS. For example, the definition of intangible fixed assets has been widened and as such more intangible assets may need to be recorded on the authority's balance sheet.

9.3.8 IFRS also reiterates the requirement to move to component accounting. This means that where an asset is made up of several material parts with different life expectancies they will need to be accounted for separately. The Royal Institute of Chartered Surveyors (RICS) will be issuing guidance on how to achieve this in April 2010.

Financial Statements

9.3.9 The format of the financial statements will be different under the IFRS code. In particular, the primary financial statement will be a “Movement in Reserves Statement”. Replacing the previous “Statement of Movement on the General Fund Balance”, this new statement is intended to give the reader of the accounts a clearer picture of the economic cost of the Council’s activities. Also, the disclosure requirements for the Statement of Accounts will be considerably increased which is likely to lead to an increase in the length and detail of the Statement of Accounts.

9.4. PROGRESS TO DATE

9.4.1 Work in Barnet has started on areas where significant differences have been identified; leasing, employee benefits systems and assets. Weekly progress meetings have been in place since August with Property Services, particularly with the qualified valuers. The Authority’s SAP consultants, Logica, have completed an analysis of our SAP working practices with a view to recommending improvements to the system to ensure the efficient implementation of IFRS.

9.4.2 Work on IFRS implementation, with the exception of the SAP systems analysis, is currently being undertaken entirely by in-house staff. It may be necessary during the implementation to consider external staff if additional technical expertise is required. If this does occur it is most likely to be in areas of the greatest technical complexity

9.4.3 Barnet has been a proactive partner in the setting up and running of the London IFRS Forum and has attended each of the meetings held. These are a valuable source of knowledge exchange and information.

9.5 SUMMARY

9.5.1 The move to IFRS accounting is a statutory requirement and therefore the deadline for its implementation must be complied with. It is likely to increase the Finance sections’ workload in the short term and the size of the Statement of Accounts publication going forward. Once the procedures have been finalised they should be manageable within current resources.

9.5.2 Regular communication and progress meetings with the Chief Finance Officer, Assistant Director of Strategic Finance, the Implementation Team, Cabinet Member for Resources and Grant Thornton (External Auditors) will ensure that the progress being made is in line with both the recommended timetable and audit requirements.

10. LIST OF BACKGROUND PAPERS

10.1 Local Authority Accounting bulletins, CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010 - Invitation to Comment

Legal: MAM
Finance: MC

CIPFA

LAAP BULLETIN 80

March 2009

Implementation of IFRS – Outline Project Plan

AT THE HEART OF PUBLIC SERVICES

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the SORP, BVACOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the SORP, BVACOP or Prudential Code.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students
020 7543 5888

The Chartered Institute of Public Finance and Accountancy
Registered with the Charity Commissioners of England and Wales Number 231060

INTRODUCTION

1. This Bulletin is relevant to all bodies who will be required to account under the IFRS-based Code of Practice on Local Authority Accounting in 2010/11.

2. From 2010/11, local authorities' Statements of Accounts will be prepared under an IFRS-based Code of Practice on Local Authority Accounting. This is part of a wider public-sector move to international standards.

3. In central government, departments are required to meet four 'trigger points' set by HM Treasury. These specify the dates by which the opening IFRS balance sheet and the figures for the comparative year are to be prepared and audited. For local government, no formal 'trigger point' dates have been set. This bulletin seeks to address the absence of formal dates through an outline project plan. The project plan is however guidance rather than a formal requirement.

OUTLINE PROJECT PLAN

4. The following outline project plan is intended to provide a starting point for authorities looking to develop their own project plans. More detailed steps, specific to each authority, will be required to support each step in the outline project plan. Similarly, whilst the outline project plan identifies major milestones such as the restatement of the opening balance sheet, authorities will need to identify their own interim milestones. The dates outlined in the plan will enable an authority to achieve the introduction of IFRS by 2010/11, but are the latest dates that CIPFA would recommend. The adoption of earlier dates is encouraged.

5. Authorities are encouraged to discuss their project plan with those responsible for the governance arrangements, e.g. Cabinet, the Audit Committee etc. Senior management throughout the organisation should also be aware of the project plan, as the implementation will require input from staff outside finance. LAAP would expect these groups to be kept informed throughout the implementation process, and that IFRS implementation would be part of the internal audit programme.

6. Authorities are also strongly advised to discuss their project plan with their external auditors[1]. Auditors will wish to consider undertaking work at various stages in the adoption of IFRS (e.g. the restatement of the opening IFRS balance sheet), and authorities are advised to discuss the timetable with auditors.

7. Benefits that may arise from early external audit involvement are as follows:

   - Early identification of any difficulties or problems with the restatement of the opening IFRS balance sheet may result in less time being required to resolve these issues. This in turn may help to avoid errors occurring and prevent abortive work being undertaken.

   - Early identification of any difficulties with the restatement of the opening IFRS balance sheet may also avoid these issues impacting on the 2010/11 budget.

   - Early engagement with auditors may provide authorities with reassurance that their project plan is appropriate, or alternatively may allow for the plan to be amended in a timely manner; an inappropriate plan could lead to abortive work, or alternatively could result in a number of key tasks requiring completion in a short timescale.

---

[1] In agreeing an audit timetable with their external auditors, authorities may wish to refer to the fee arrangements that will apply in the relevant jurisdiction.

8. The outline project plan is as follows:

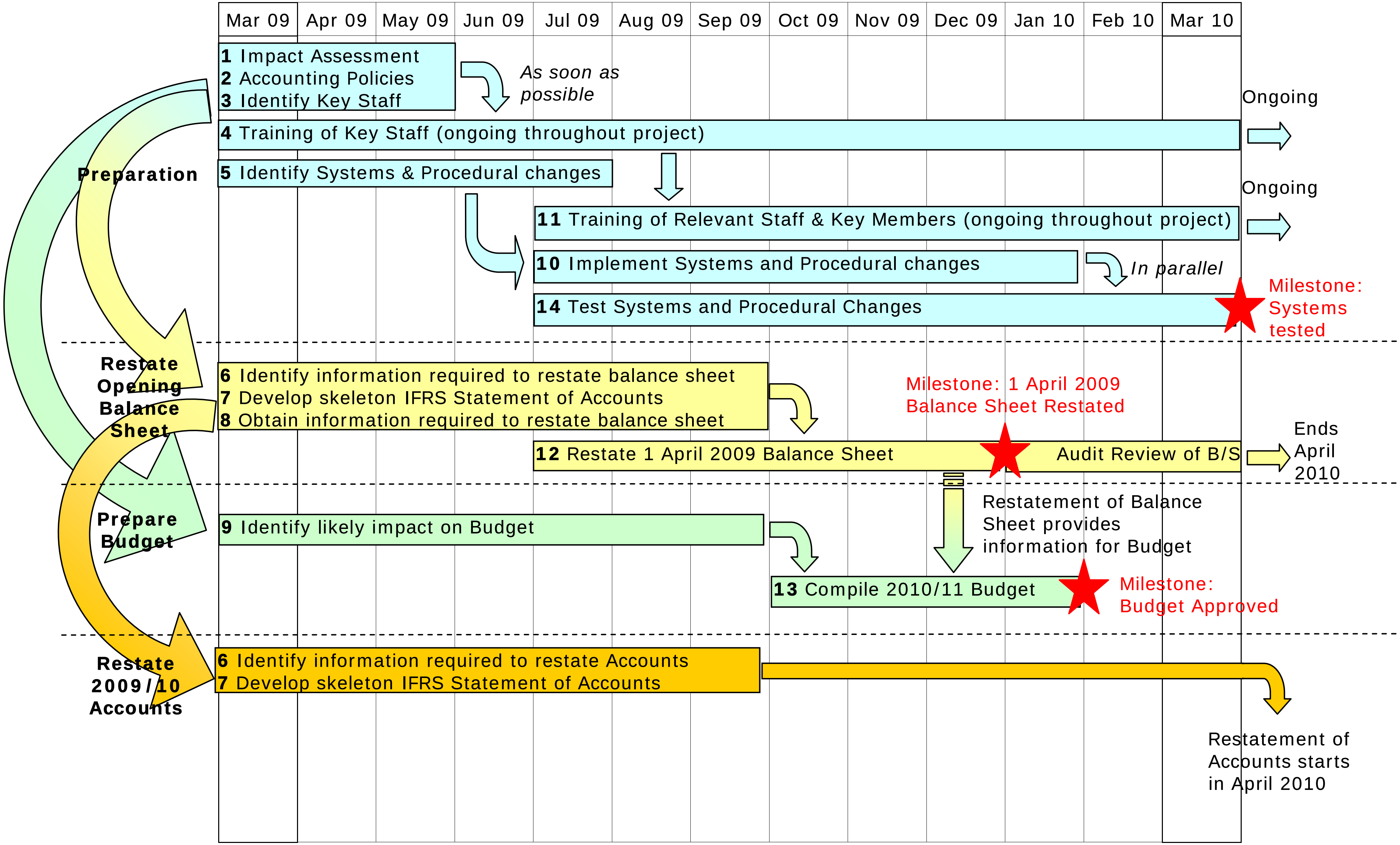
<table>
<tr><th></th><th>Step</th><th>Dependency</th><th>Dates</th><th>Areas for Discussion with External Audit</th></tr>
<tr><td>1</td><td>Carry out high level impact assessment using information on CIPFA web site (and other resources where available)
PFI
Leases
Tangible Assets
Employee Benefits (e.g. Holiday Pay)
Other Areas</td><td></td><td>As soon as possible; completion of this stage by May 2009 recommended</td><td rowspan="6">Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.</td></tr>
<tr><td>2</td><td>Identify changes to accounting policies</td><td>In parallel with step 1</td><td>As soon as possible; completion of this stage by May 2009 recommended</td></tr>
<tr><td>3</td><td>Identify key staff (finance, legal, property, HR, other)
Assess whether resources adequate
Allocate responsibilities
Develop detailed project plan</td><td>Based on impact analysis in step 1</td><td>As soon as possible; completion of this stage by May 2009 recommended</td></tr>
<tr><td>4</td><td>Key staff trained on IFRS transition</td><td></td><td>At an early opportunity, then ongoing throughout project</td></tr>
<tr><td>5</td><td>Identify systems and procedural changes (including Chart of Accounts changes) required</td><td></td><td>March 2009 - end July 2009</td></tr>
<tr><td>6</td><td>Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet and 2009/10 accounts</td><td></td><td>March 2009 - September 2009</td></tr>
<tr><td>7</td><td>Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)</td><td>Accounting policies in step 2</td><td>March 2009 - September 2009 (assumes CIPFA/LASAAC agree formats in March 2009)</td><td rowspan="2">Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.</td></tr>
<tr><td>8</td><td>Obtain information required to restate 1 April 2009 balance sheet</td><td>Identified during step 6</td><td>March 2009 - September 2009</td></tr>
</table>

	Step	Dependency	Dates	Areas for Discussion with External Audit
9	Identify likely impact on budgets (if any)		March 2009 – September 2009	
10	Implement systems and procedural changes	Identified in step 5	July 2009 – January 2010	
11	Training for all relevant staff and members		Ongoing from July 2009	
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	Obtained in steps 7 & 8	July 2009 – December 2009*	Auditors will wish to consider the implications for reviewing balance sheet and / or processes and arrangements
13	Compile 2010/11 and later budgets on IFRS basis, building on restatement of balance sheet, taking into account changes to the final version of the Code and any regulations proposed by government to mitigate the impact on General Fund / HRA	Impact from step 9	October 2009 – January 2010	No direct input, but previous discussions and results of any audit work in step 12 may inform budget decisions where auditors involved at an early date
14	Testing of systems and procedural changes	Follows on from step 10	July 2009 – March 2010*	Auditors will wish to consider the implications for relevant work on systems
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	See steps 6, 7, 8, 12	April 2010 – December 2010*	Auditors will wish to consider the implications for their work
16	Produce 2010/11 accounts on IFRS basis		April 2011 – June 2011	Normal audit procedures – accounts signed by 30 September 2011 (31 October 2011 in Northern Ireland)

* Indicative timescale; absolute deadline is given in step 16.

A timeline of the outline project plan is shown below:

Outline Project Plan March 2009 – March 2010



Outline Project Plan April 2010 - March 2011