

CITY OF PLYMOUTH

Subject: Progress Report – International Financial Reporting Standards (IFRS) Transition Project

Committee: Audit Committee

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Cabinet Member: Councillor Bowyer

CMT Member: Director for Corporate Support

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Part: I

Executive Summary:

This report updates the progress towards the requirement to produce IFRS compliant Accounts for 2010/11.

Corporate Plan 2009-2012:

The Council's expenditure and income forms the basis on which the Corporate Plan can be delivered. Delivering quality, IFRS compliant accounts will be assessed under the new Use of Resources Assessment and the project therefore falls under CIP14, Value for Money.

Implications for Medium Term Financial Plan and Resource Implications: Including Finance, Human, IT and Land:

The implementation of IFRS will require considerable time and resources, which will continue over the medium term. It is not possible at the moment to quantify the impact for the authority in financial terms but further reports will be presented as the project progresses and more details become known.

Work continues to be undertaken by the public sector professional accounting body (CIPFA) so that accounting issues that might impact adversely on councils' finances are identified and potential solutions developed as early as possible.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

Recommendations and Reasons for recommended action:

Alternative options considered and reasons for recommended action:

Background papers:

IFRS reports to Audit Committee – 18 December 2008 and 26 June 2009.

Sign off:

1. Introduction

- 1.1 A report was presented to Audit Committee on 26 June outlining the progress being made by officers in order to meet the requirement for Local Authority Accounts to be produced on an IFRS basis with effect from 2010/11. This report has been produced to provide a further update and summary of the current position.

2. Progress since 26 June Report

- 2.1 The IFRS working groups are now all established and have commenced the detailed work required for the authority to prepare for IFRS. Work is currently being finalised by the work groups to complete detailed impact assessments for each accounting standard. These impact assessments will draw out the main issues relating to each accounting standard and focus on the implications for finance, processes, systems and people.
- 2.2 Once these impact assessments have been completed it will be possible to prepare a detailed project plan and also to make a more informed judgement about whether additional resources will be required to successfully complete the project. The impact assessments will also be discussed with the external auditor before detailed work begins to ensure that the authority is progressing in the right direction.
- 2.3 Members will have seen the External Auditor's report entitled 'Annual Report to those Charged with Governance', which forms part of this meeting's agenda, which confirms that the auditor is satisfied with the progress made to date for IFRS and that there will continue to be close liaison throughout the process to support the implementation of the changes required to the annual accounts.
- 2.4 The IFRS Project Board has also been formed and has met twice to date, with a lead officer from each workstream attending the meetings. The Board is an important forum for officers to discuss progress to date, cross-cutting issues and any other matters which need to be addressed. Any significant issues raised at the meetings are escalated to the IFRS Steering Group for resolution in order for the project to maintain momentum.
- 2.5 Officers have attended the following training events, organised by CIPFA's Finance Advisory Network, which focus on the more technical issues surrounding IFRS:-
- PFI and IFRS - Addressing the Challenges
 - Fixed Asset Measurement and Recognition for Local Authorities under IFRS
 - Local Authority Accounting: The CIPFA SORP and BVACOP Technical Update
- 2.6 CIPFA have several events relating to the transition to IFRS planned for the forthcoming months and officers will ensure that the authority is represented where appropriate.

3. Development of the IFRS Code of Practice

- 3.1 The previous progress report explained that CIPFA are in the process of developing an IFRS Code of Practice which will replace the current SORP from 2010/11 as being the authoritative source of accounting guidance for local authorities across the UK.

- 3.2 CIPFA released the full draft IFRS Code of Practice for consultation at the end of June. A fairly short consultation period was set, ending on 11 September, to allow time for responses to the invitation to comment to be considered and then the final Code to be published in December in line with their timetable. It is imperative that the Code is published as soon as possible so local authorities can then move forward with their preparations for IFRS with the reassurance that final guidelines have been set.
- 3.3 The draft Code was accompanied by a summary document highlighting the differences between the 2009 SORP (UK GAAP) and the 2010 Code (IFRS) which will allow authorities to ascertain the key changes that need to be recognised in the accounts. It also provides details of interpretations of or adaptations to the international accounting standards that CIPFA are proposing to include in the Code to ensure that it the contents are appropriate for local authorities.
- 3.4 Officers prepared and submitted a response to CIPFA's consultation on the draft Code, highlighting issues where it was felt that the guidance needed clarification, suggesting alternatives or requesting further advice where appropriate. Discussions on the draft Code were also held at the Devon Accounting Development Group, attended by several of the Devon authorities, and this joint approach helped to identify the main issues for comment.
- 3.5 The draft code also included the proposed format of the accounting statements under IFRS and these are currently being reviewed.

4. Next Steps

- 4.1 One of the key issues to be resolved is the determination of the Accounting Policies which will be adopted under IFRS. Accounting policies include the principles and rules applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements. Examples would be how Government Grants and Contributions, Provisions, Tangible Fixed Assets are accounted for in the financial statements. In some cases there will be options in terms of the accounting policy that the authority adopts under IFRS and officers will be considering the most appropriate alternative, in consultation with the auditor where necessary, over the coming weeks.
- 4.2 Now that the audit of the 2008/09 financial statements has been finalised, work will commence to create an opening IFRS balance sheet as at 1 April 2009, based on the financial position as at 31 March 2009. This will include re-statements for the PFI scheme and the impact of employee benefits.

5. Recommendations

- 5.1 Audit Committee note the progress on the IFRS Transition Project to date.