

## CITY OF PLYMOUTH

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

**Committee:** Audit Committee

**Date:** 11 December 2009

**Cabinet Member:** Portfolio Holder for Budget & Asset Management, Revenues & Benefits, People and Governance

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**Part:** 1

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### **Executive Summary:**

This report provides a further update on the IFRS transition project as at December 2009.

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### **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.

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

The implementation of IFRS requires considerable time and resources, which will continue over the medium term. Whilst the majority of the work will be undertaken within existing resources, there may be a need for specialist support which will be identified as the project progresses.

Work continues to be undertaken by the public sector professional accountancy body (CIPFA) in order that accounting issues that might impact adversely on the Councils' finances are identified and potential solutions developed as early as possible. The Department for Communities and Local Government have issued a draft regulation for consultation which proposes mitigating action for authorities affected by the new accounting requirements in respect of employee benefits, PFI and lease reclassifications.

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety etc:**

N/A

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**Recommendations & Reasons for recommended action:**

Audit Committee note the progress on the IFRS Transition Project as at December 2009.

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**Alternative options considered and reasons for recommended action:**

None – Statutory requirement to produce the Statement of Accounts using the relevant codes of practice.

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**Background papers:**

Various articles, guidance and literature published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and accountancy firms PricewaterhouseCoopers and Grant Thornton.

IFRS reports to Audit Committee– 18 December 2008, 24 June 2009 and 25 September 2009

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**Sign off:**

Fin	Mc CorpF90 0007	Leg	n/a	HR	n/a	Corp Prop		IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

## Progress Report – IFRS Transition Project

### 1. Introduction

- 1.1 This report provides an update on the work undertaken during the period September to December to ensure the Council will be able to produce its statutory accounts on an IFRS basis from 2011/12.

### 2. Progress during the period

- 2.1 Detailed Impact assessments have now been completed for each of the International Reporting Standards. These assessments set out the implications on the authority's finances, processes, systems and people. The key issues identified as a result remain in line with those outlined in the initial high-level review undertaken earlier in the year as follows:-

- IAS 8 Accounting Policies
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 19 Employee Benefits
- IFRS 1 First-time adoption of IFRS
- IFRIC 12 PFI & PPP

- 2.2 Work currently in progress includes:

- reviewing and updating the accounting policies based on the new CIPFA Code of Practice
- preparing the opening IFRS Balance Sheet to reflect the position as at 1 April 2009 on an IFRS basis
- restating the Income and Expenditure Account and Balance Sheet into the new IFRS format
- initial work to update Council's financial system for the revised 'chart of accounts'.

### 2.3 PFI Contracts

New requirements for accounting for PFI contracts comes into effect for the 2009/10 accounts. The Council currently has one PFI scheme encompassing the schools at Woodview and Riverside primary. This scheme has been assessed as meeting the requirements to be accounted for 'on balance sheet' with effect 1 April 2009. Although initial work to identify all the factors which will need to be taken into account has been completed, this area is a highly specialist and complex technical area and Officers are currently seeking external support to complete the financial modelling necessary to enable the relevant restatement of the accounts. It is proposed that officers work with the advisors in order to gain knowledge in this area to enable future the PFI accounting entries to be undertaken internally.

### **3. The IFRS Code of Practice**

3.1 The initial consultation on the draft IFRS Code of Practice ended on 11 September 2009. The main changes that have been made to the draft Code have been confirmed as:

- the provision of additional clarification and / or guidance for various aspects of the Code; and
- the addition of two sections relating to accounting for Government Grants and Borrowing Costs.

3.2 Formal publication of the final Code is expected in the next few days, although the more detailed practitioner guidance notes will not be available until the spring of 2010.

### **4. Mitigation of financial implications of IFRS**

4.1 Following representations by CIPFA, the Department for Communities and Local Government have issued draft regulations outlining proposals to mitigate any financial impact resulting from the move to IFRS based accounting on Council tax payers. In particular, the draft regulations outline proposals to mitigate:

- the financial impact from the requirement to include accrued holiday and other employee benefits on the balance sheet
- any financial implications as a result of the inclusion of PFI schemes on the balance sheet
- any adverse implications from lease reclassifications, allowing income from leases reclassified from operating to finance leases to continue to be treated as revenue income providing the lease was entered into prior to the issue of the draft regulations.

4.2 The final regulations will be issued by 31 March 2010 to allow the impact of PFI schemes to be offset in the 2009/10 accounts.

### **5. Officer Training and Raising Awareness of IFRS**

5.1 Officers continue to attend relevant training events, mainly organised by CIPFA's Finance Advisory Network, which focus on the more technical issues surrounding IFRS and provide the opportunity to network with other authorities.

5.2 Plymouth hosted a seminar at the end of October entitled 'IFRS and local authority accounts' which was arranged as part of the CIPFA Wales and West of England regional activities. The seminar was well attended and received and included presentations from CIPFA's Local Government Accounting Technical Manager and Grant Thornton. As well as providing the chance to network with other authorities and discuss key issues this also provided the opportunity for officers within the authority to learn more about IFRS.

5.3 Officers are meeting with a representative from Plymouth PCT this month to discuss IFRS from a practical perspective. The NHS are required to produce their 2009/10 accounts on an IFRS basis. The aim is to learn from the NHS experience to date to assist with our preparations.

- 5.4 In terms of raising awareness of IFRS on a wider basis within the authority, the Project Manager will be briefing officers within the finance teams, not currently involved in any of the working groups, over the next few weeks. In addition, the Corporate Accountancy Section are aiming to develop an advanced budget manager training programme which will incorporate an overview of IFRS and the implications for the authority. It is hoped that this will be rolled out in the first few months of 2010.

## **6. External Audit involvement**

- 6.1 Officers are now in a position to ask the external auditor to review the initial work undertaken and to discuss the areas which will require changes to accounting treatment, valuation techniques, systems and processes, etc. and the plans to address these issues in order to be IFRS compliant for the 2010/11 accounts. Regular liaison with the external auditor is essential in order to ensure the proposals to address the areas requiring change are satisfactory from an audit perspective and therefore minimise the likelihood of major issues arising at a later date.
- 6.2 Officers were recently required to complete an Audit Commission IFRS survey in conjunction with the external auditor. The survey covered issues such as governance arrangements, project timetables, resources and the anticipated financial impact of IFRS. In addition authorities were also asked to rate their progress on the key IFRS issues (see paragraph 2.1 above for details) and provide an overall assessment of their progress to date and the key risks to success. The results of the survey are due to be published by the Audit Commission in March 2010, however, Officers can report that discussions with Grant Thornton on the survey resulted in both parties agreeing that, currently, our overall position would be reported as 'amber'.

## **7. Recommendations**

- 7.1 Audit Committee note the progress on the IFRS Transition Project as at the end of December 2009.