

CITY OF PLYMOUTH

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

Committee: Audit Committee

Date: 26 March 2010

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

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Part: 1

Executive Summary:

This report provides an update on the IFRS transition project for the period January 2010 to March 2010.

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 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 regulations which mitigate on the Council's revenue budget as a result of implementing the requirements in respect of employee benefits, PFI and lease reclassifications.

N/A

Audit Committee note the progress on the IFRS Transition Project as at March 2010.

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

IFRS reports to Audit Committee— 18 December 2008, 24 June 2009, 25 September 2009 and 11 December 2009.

Sign off:

Fin		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 January to March 2010 to ensure the Council will be able to produce its statutory accounts on an IFRS basis from 2010/11.

2. Progress during the period

- 2.1 The main work during this period has been:

- reviewing the PFI financial model and analysing the contract costs over the separate elements, identifying the accounting treatment and entries;
- to produce a draft restatement of the 2008/09 accounts into the proposed new IFRS format;
- a presentation to Officers at finance staff briefings to raise awareness of IFRS across the department;
- a meeting with the PCT to learn from and share best practice;
- attendance at a schools' administrators meeting to increase awareness of leasing and a general IFRS overview from a schools perspective;
- meetings with our group companies to outline IFRS requirements;
- continuation of work on the detailed impact assessments;
- review and reclassification of investment assets;
- initial drafting of IFRS accounting policies;
- draft IFRS 'chart of accounts' and update to the Council's financial systems;
- identification of additional data to be collected as part of 2009/10 closedown requirements and update to internal guidance notes to enable restatement of the 2009/10 accounts;
- continuing attendance at specialist training events.

- 2.2 A meeting has been held with the external auditor to discuss the progress and the completed detailed impact assessments and work is ongoing to address questions raised.

- 2.3 The main areas of focus continue to be around the high risk areas identified as part of the detailed impact assessments. These areas are fixed assets, leasing, employee benefits and PFI. Officers continue to work with staff across the Council, including Asset Management and Human Resources to ensure the project is delivered within the required timescale.

- 2.5 The progress on the project is expected to slow over the next few months as closure of the 2009/10 accounts takes priority.

3. The IFRS Code of Practice

- 3.1 The final IFRS Code of Practice was published by CIPFA at the end of December 2009 and, although there is currently no date for publication of the more detailed guidance notes, this has brought an element of clarity and certainty to the required changes in accounting treatment and has enabled work to progress. CIPFA have now started to publish draft transitional guidance to assist authorities in moving forward.
- 3.2 The table below compares the proposed IFRS statements to the current statements produced in accordance with the SORP.

Order	Old Name under SORP	IFRS name	IFRS Code of Practice
1	SMGFB	Statement of changes in Equity	Movement in reserves statement
2	Income and Expenditure Account +STRGL	Statement of Comprehensive Income	Comprehensive Income and Expenditure Statement
3	Balance Sheet	Statement of Financial position	Balance Sheet
4	Cash Flow Statement	Cash Flow Statement	Cash Flow Statement
5	Notes to the accounts	Notes to the accounts	Notes to the accounts

- 3.3 Appendix A outlines in more detail the differences between the current SORP requirements and the accounting presentation for the Balance Sheet under the IFRS Code. A more detailed explanation of each statement will be made to Audit Committee at a later session as part of restatement of the 2009/10 accounts.

4. Mitigation of financial implications of IFRS

- 4.1 The report to Audit Committee in December outlined that CLG were consulting on proposed regulations to mitigate the impact of IFRS on Council's budgets. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 have now been finalised and published. These regulations confirm mitigating provisions in respect of:
- Employee benefits
 - Leasing reclassification
 - PFI schemes

- 4.2 The only change from the draft regulations in terms of IFRS is an extension to the effective date for lease classification mitigation to include all leases entered into up to 31 March 2010 (under the draft regulations the effective date was to be November 2009).

5. Audit Commission Report – Countdown to IFRS

- 5.1 In November 2009, external auditors were required to collect evidence from all local authorities to enable the Audit Commission to establish Local Governments readiness for the transition to IFRS. The results were published during February in the audit Commission report “Countdown to IFRS- Implementation in Local Government”.
- 5.2 The survey of auditors identified that only one authority in seven was on track, and one in five was having serious difficulties. As reported to Audit Committee in December, this authority scored itself as ‘amber’ within the survey.
- 5.3 The report identifies a number of areas that authorities should now prioritise and the table below shows how the Council compares.

Audit Commission Recommendations	PCC Progress
Develop and maintain a detailed project plan, including a budget and resource plan	The Council has an outline project plan and has set up a number of specific work groups to review each of the IFRS standards to identify issues for the Council. Additional budget provision has been agreed and included within the 2010/11 budget specifically for IFRS implementation. This will be utilised in Asset management to complete the fixed asset review and to fund specialist advice as required
Conduct a detailed impact assessment	Each workgroup lead has completed a detailed impact assessment for each standard and, where applicable, identified actions required to ensure compliance with the standard. The workgroups meet to monitor progress. Initial discussions of the detailed impact assessments have been held with the external auditor
Engage the wider organisation because IFRS is not just a finance issue	The specific workgroups have cross departmental representation. In particular Asset Management are leading on the fixed asset and

	property leasing workstream, HR have been closely involved in the employee benefits work stream, and Children's Services have made a major contribution to the PFI workstream.
Ensure their audit committee is aware of the implications of IFRS	Audit Committee has ultimate responsibility for Governance of the project and receive a progress report at each Committee meeting.
Begin a dialogue with their external auditor on the authorities plans and progress, and the issues arising.	An initial meeting has been held with the external auditor, and further meetings will be held over the next few months.

6 Recommendations

- 6.1 Audit Committee note the progress on the IFRS Transition Project as at the end of March 2010.