REPORT FOR:	**GOVERNANCE AUDIT AND RISK MANAGEMENT COMMITTEE**
Date:	8 April 2010
Subject:	International Financial Reporting Standards (IFRS) Implementation Project
Responsible Officer:	Myfanwy Barrett, Corporate Director Finance
Exempt:	No
Enclosures:	Not Applicable

Section 1 – Summary and Recommendations

This report sets out the implications of implementing International Financial Reporting Standards (IFRS)

Recommendations:

Note the progress on the IFRS implementation project.

Section 2: Report

Introduction

1) International Financial Reporting Standards (IFRS) represent a significant change in financial reporting across government and the public sector and is soon to become part of the way in which government reports its financial results. The move to IFRS in government is part of a process of aligning public sector financial reporting with what is seen to be the highest standards of financial reporting.

2) At its previous meeting on 30th November 2009 the Committee approved the project plan for the Implementation of International Financial Reporting Standards. This report updates the Committee on current progress towards the agreed Milestones and gives a summary of the work taking place on the project.

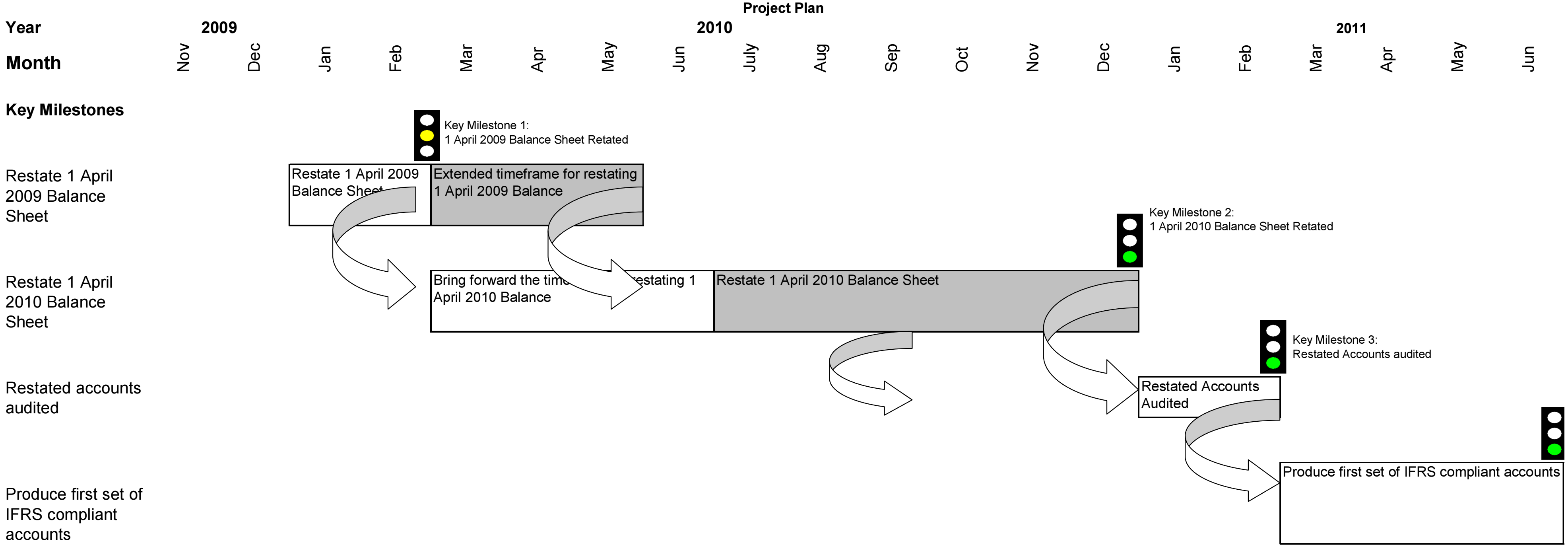
IFRS Implementation Update

3) The project plan on the next page summarises the progress to date. As you will note from the project plan, the milestone for the re-statement of 2008/09 Balance Sheet as at 1st April 2009 was 26 Feb 2010. There have been delays in meeting this deadline resulting mainly from:-
   a) Lack of a corporate register in respect of all contracts and leases; and
   b) Data collating issues in respect of employee's holidays and Private Finance Initiatives.

4) The next quarter will see further acceleration of work on IFRS implementation with work scheduled on producing the restated balance sheet as at 1 April 2009 by end of May 2010. The restated balance sheet as at 31 March 2010 to be completed by end of September 2010. This will mean that the overall project will be back on track by compensating delays of the first key milestone by accelerating work on the second milestone of restating the 2009/10 balance sheet and preparing the skeleton statement of accounts under IFRS for 2009/10. A report will be submitted to the next Committee detailing the results of those tasks.

5) The results of the Audit commission survey on local government's readiness for the transition to IFRS found that only one in seven authorities is on track. The main reasons for the delays were common (data collection and resources) across all the authorities.

Project Plan



6) **Private Finance Initiatives**
   a) The council must review all PFI schemes to consider whether the assets are being accounted for correctly. To cope with the complexity in this area external consultants Grant Thornton has been engaged to assist and officers are working closely with them to prepare the transactions required for restating the 2008/09 accounts and for full implementation in the 2009/10 accounts. It is anticipated that this work will be completed by mid April.
   b) Accounting for PFI schemes on balance sheet creates a finance lease. This means that a part of the unitary payment will be taken to reduce the balance sheet lease liability rather than being charged as expenditure on the revenue account. This will result in a reduction in the charge to the Income and Expenditure Account.
   c) This reduction in the charge to the Income and Expenditure Account will be offset by increasing the Minimum Revenue Provision (MRP) charge under the Capital Finance and Accounting Regulations 2010.

7) **Leases**
   a) The move to IFRS creates two issues in respect of leases, i.e. the breadth of the definition and the way in which the leases are identified.
   b) If the review results in some of the lessee leases needing to be treated as a finance lease then this means that the accounting transactions will need to be brought 'on balance sheet'. This will result in a lease liability on the balance sheet and a part of the rental payment will be used to reduce the lease liability. This will result in a reduction in the charge to the Income and Expenditure Account. This reduction will be offset by increasing the MRP charge under the Capital Finance and Accounting Regulations 2010.
   c) Where lessor leases are found to be finance leases, then this may result in rent ceasing to be revenue and treated as a capital receipt and can no longer be used to support revenue expenditure. To protect the Council from any revenue shortfall, the Capital Finance and Accounting Regulations 2010 will reverse the change to the lease income, so that former revenue income retains that status for the future and does not become a capital receipt. It should be noted that this concession will only apply to leases already existing as at 31 March 2010 and authorities granting leases subsequently will do so in the full knowledge of the accounting standards.
   d) **Property leases** – both the lessor and lessee leases have been identified for further review and the contracts are currently being reviewed to establish the correct accounting treatment. This work is planned to be completed by end of April.
   e) **Other lessee leases** – the majority of the contracts for further review have been identified and it is anticipated that this will be completed by mid April. There have been some delays in obtaining data for some areas. Work is in progress and will be completed by end of April.
   f) **Embedded Leases**. IFRS requires the Council to look at the arrangements that the council has entered into which has a transaction or a series of transactions that does not take the legal form of a lease but conveys the right to use that asset. The work on this area is still at its initial stage and it is anticipated to be completed by end of April.

8) **Employee Benefit**
   a) The Council is required for the first time to accrue for benefits such as holiday pay, where these are material. Most of the work on non-teaching staff is completed. The cost of the annual leave accrual for teachers is currently being based on a suggested CIPFA methodology. This approach will be reviewed as more detailed guidance becomes available.
   b) The new Capital Finance and Accounting Regulations 2010 will negate the impact of the transition to the new IFRS accounting.

9) **Fixed Assets**
   a) The significant changes in this area include different requirements for the basis of valuations, different accounting requirements for investment assets and the requirement to separately identify and account for components of a fixed asset.
   b) In order to ensure that above issues are all considered, Valuers and Finance are working together to implement the Asset Policy from 2010/11.

Potential Benefits

10) The work on the implementation has identified what needs to be done to improve systems and data as detailed below:-
   a) ensure a better understanding of contractual and lease commitments;
   b) maintain a complete corporate contract and lease register;
   c) more accurate accounting for fixed asset components; and
   d) ensure there is a better system for recording employee benefits data.

External Auditors

11) Consultation has taken place with the External Auditors on the Council's approach on the significant areas detailed above. The milestone dates for the project include targets for audits of the restatement of financial statements from years prior to 2010/11.

Financial Implications

12) The implementation of IFRS may generate costs associated with the use of external expertise and advice. It is the intention that all costs will be funded from existing budgets.

Performance Issues

13) The timeliness and accuracy of the completion of the accounts impacts the Use of Resources score on Financial Reporting which feeds into the overall Comprehensive Area Assessment (CAA) score. It is essential that the Council is able to demonstrate good financial reporting and continues to improve its score in this area. The implementation of the IFRS will increase pressure on improving the score.

Risk Management Implications

14) These are contained within the report.

Environmental Implications

15) There are none directly related to this report.

Section 3 - Statutory Officer Clearance

Name: Jennifer Hydari Date: 22 March 2010	√	On Behalf of Chief Financial Officer

Section 4: Contact details and background papers

Contact: Hasina Shah (Finance Business Partner – Financial Accounting, Treasury and Pension Fund) tel: 020-8424-1573

Background Papers:

(a) None