MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

REPORT OF THE HEAD OF FINANCE

Report prepared by Paul Holland (Senior Accountant)
Date Issued: 15th June 2009

1. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1.1 Issue for Decision

1.1.1 To consider the current progress to date of the implementation of IFRS within the Council, and to consider the future timetable and work required.

1.2 Recommendation of the Head of Finance

1.2.1 That the Committee notes the progress to date and endorses the proposed future implementation plan.

1.3 Reasons for Recommendation

1.3.1 The Council will be required to produce its Statement of Accounts in accordance with the requirements of IFRS from 2010/11 onwards. However there is a great deal of preparatory work that will need to take place prior to this date.

1.4 Background Information & Implementation Plan

1.4.1 Local Authority Accounts are currently prepared using UK Generally Accepted Accounting Practice (GAAP), but it was announced in the 2007 Budget that the UK Public Sector would adopt International Financial Reporting Standards (IFRS - adapted as necessary for the public sector)

1.4.2 The first full IFRS compliant accounts for 2010/11 will be approved by Members on 30th June 2011. Prior to that there will be a lead in period where work will be required to convert the current GAAP accounts to the IFRS format. As the 2010/11 accounts will require 2009/10 comparators on the Balance Sheet and within other Statements and Notes the first stage in the process will be to produce an IFRS based opening Balance Sheet as at 1st April 2009 – that is based on 2008/09 year end figures, so work will need to begin during 2009/10 to get to this starting point.

1.4.3 The introduction of IFRS will mean significant changes in a number of areas:

- Fixed Assets – there are going to be changes in respect of asset valuation methodology and the accounting for fixed assets, in particular the introduction of component accounting. This means different elements of an asset may need to be accounted for separately depending on its component parts. For example at present we have one value for the Leisure Centre – under IFRS we would have to have separate values for the land, building, roof, lifts, engineering plant and so on. This will impact on the current asset register and the valuation process, as more specialist guidance will be needed for non-building valuations.

- Leases – IFRS will change the way a lease is determined as being either a finance or operating lease. Rather than the current quantitative test more of a judgment will need to be made. There may also need to be some separation of component elements of a lease if applicable. Each of our current leases will need to be reviewed to assess the likely IFRS impact, and it may be possible that our leasing advisors can offer some assistance.

- PFI – At present we have no PFI schemes of our own, although we are involved in the county-wide Housing PFI scheme. However we will need to be aware of the requirements should we become more involved in a PFI scheme in the meantime.

- Group Accounts – Under GAAP we do not have any relationships that require us to produce Group Accounts. However there are different tests under IFRS, the key one being the ability to exert influence over a 3rd party even if we do not currently do so. The main area of concern here is likely to be our relationship with the Cobtree Trust.

- Format of Accounts – The accounts are likely to increase in length due the number of additional disclosures. The exact detail of the format is yet to be determined, but an IFRS based Statement of Recommended Practice (SORP) is in the process of being compiled.

- Employee Benefits – IFRS will require authorities to accrue for employee benefits that have been earned by staff but not yet taken. This means untaken leave and flexi time as at 31st March will need to be accrued for.

1.4.4 Work has already begun on the implementation process. Senior staff in the Accountancy section have already attended a number of briefings and seminars relating to the implementation of IFRS, and will continue to do so. An outline project timetable has been drawn up and this is attached at **Appendix A**. A risk assessment has also been undertaken on the implementation process.

1.4.5 There will be liaison with our external auditors to ensure that they are satisfied with our progress to date, and there have also been preliminary discussions with the other Mid-Kent Improvement Partnership authorities regarding the adoption of a common approach to the implementation. Attached at **Appendix B** is a briefing paper produced by the Audit Commission that summarises their approach to project planning for the implementation of IFRS.

1.5 Resource Requirements

1.5.1 Clearly the introduction of IFRS is one of the most significant changes to Local Authority accounting for a number of years. Nevertheless the first set of IFRS compliant accounts will need to be of a high standard to ensure that there is no adverse impact upon the both the reputation of the Council and its Use of Resources assessment. It is therefore important that the preparation for IFRS is thorough and adequately resourced.

1.5.2 There is likely to be a significant amount of work involved in those areas identified above as where the significant changes will occur. This will impact not only upon the Accountancy section but on other departments as well. There is a potential financial impact should consultants be involved at any point in the process, for example the requirement for fixed asset component accounting may require specialist valuation services, and there may be an increase in external audit fees. Equally if the preparation work proves to be considerably time-consuming additional staffing may be required to maintain the quality of day to day operation within the Accountancy section.

1.6 Alternative Action and why not Recommended

1.6.1 There are no alternatives as the production of an IFRS-compliant Statement of Accounts will be a statutory requirement.

1.7 Impact on Corporate Objectives

1.7.1 Production of a Statement of Accounts that does contain any material or significant errors is a key element of the annual external assessment process. It is therefore important that the first IFRS-based Statement meets this requirement.

1.8 Risk Management

1.8.1 The primary risk is that the Council fails to produce its accounts in accordance with the requirements of IFRS. A risk assessment has been undertaken to mitigate this risk, and the proposed plans outlined above will ensure that the potential of failure is significantly reduced.

1.9 Other Implications

1.9.1

1.	Financial	
2.	Staffing	
3.	Legal	
4.	Social Inclusion	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes [ ] No [X]

If yes, when did it appear in the Forward Plan? ____________________

Is this an Urgent Key Decision? Yes [ ] No [X]

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]