Dudley
Metropolitan Borough Council

Agenda Item No. 5

Audit Committee – 16th April 2009

Report of the Interim Director of Finance

Implementing International Financial Reporting Standards

Purpose of Report

1. To authorise the Interim Director of Finance to make project management arrangements for the implementation of International Financial Reporting Standards (IFRS).

Background

2. The annual financial statements of government bodies and other public bodies, including local authorities are currently produced in line with UK Generally Accepted Accounting Practices (UKGAAP). However, in March 2007 the Chancellor's Budget Report announced the Government's intention for financial statements to be published in line with IFRS. The intention was to bring consistency and comparability with global economies and follow best practice in the private sector.

3. Whilst local authorities will report on an IFRS basis from 2010/11, statements for the previous year will also need to be restated to produce prior year comparatives. Transition requirements for IFRS mean that the Council will have to produce shadow IFRS accounts for 2009-10 and a re-stated balance sheet for 2008-09, as well as the "regular" accounts for these years. The shadow accounts as well as the Council's processes for conversion to IFRS will also be subject to external audit.

4. Audit Committee has responsibility for the approval of the Council's Statement of Accounts and the transfer to IFRS represents a significant change to the accounting standards on which the Statement of Accounts is based. The transition will also affect areas of the organisation outside of Accountancy - principally Corporate Estates and Human Resources. Major aspects of IFRS still need to be interpreted for local government by the Chartered Institute for Public Finance and Accountancy (CIPFA) but key changes likely to impact on the accounts are summarised below:

Private Finance Initiative (PFI) arrangements

5. There is a strong likelihood that PFI Schemes will have to be recorded on the balance sheet. The 2008-09 balance sheet will have to be restated from the beginning of each PFI contract as if the PFI assets had always been on the Council's balance sheet. This is likely to require analysis and re-working the original financial models from the inception of the PFI schemes, which may require external advice.

Leases

6. Recognition and measurement of leasing arrangements is different under IFRS with the likelihood that more leasing arrangements (including embedded leases where an arrangement conveys a right to use an asset) will have to be recorded on the balance

sheet as finance leases, which have more complicated accounting requirements. This requires detailed accounting and legal analysis of lease documents.

Employee Benefits

7. There may be a need to accrue for all employee benefits in the year in which they were earned. This will probably include both untaken holiday pay and unused flexitime at year-end. Any financial effects on the revenue account in the first year of implementation will need to be carefully considered, though it is hoped that this will be mitigated by government regulation.

Fixed Assets

8. IFRS may mean a change in valuation methodology and possibly more frequent valuations to ensure that balance sheet valuations are up to date. There may be much more onerous record-keeping requirements for the authority such as recording components of assets separately. Valuation processes and systems in Corporate Estates will probably also need to be updated for IFRS compliance.

Format of Accounts & Disclosure Requirements

9. It is likely that the Statement of Accounts and disclosure notes will need to be modified. The private sector experience of IFRS was that the statement of accounts significantly increased in size due to greater disclosure requirements.

10. IFRS places a great emphasis on segmental reporting for final accounts i.e. that they should reflect the internal financial reporting structure of the Council. This is a key departure from previous CIPFA guidance which requires councils to base final accounts on the Best Value Accounting Code of Practice for consistency and comparison purposes with other authorities.

Project set up and governance

11. Early planning and project management are essential to ensure a successful transition to IFRS. It is proposed that the Interim Director of Finance be authorised to set up project management arrangements with support from other Directors as required. Further reports will be brought to the Audit Committee as work progresses.

Finance

12. There will be a number of implications for the Council's Statement of Accounts arising from implementation of IFRS. These will be determined during the implementation of the project.

Law

13. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

Equality Impact

14. The activities considered in this report have no direct impact on issues of equality.

Recommendations

15. That Audit Committee authorise the Interim Director of Finance to make project management arrangements for the implementation of International Financial Reporting Standards (IFRS).

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Bill Baker
Interim Director of Finance

Contact Officer: Amarjit Uppal

Telephone: 01384 812425

Email: amarjit.uppal@dudley.gov.uk

Background Papers