

THE MOVE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Audit Committee 16 March 2010

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Why do the move to IFRS?

- global corporate markets require consistent measurement and presentation in financial statements
- Government are seeking to harmonise public sector reporting with best practice in the corporate sector
- Whole of Government Accounts need to be prepared using common principles

How will IFRS be applied in the public sector?

- financial reporting in government is determined by the Financial Reporting Manual (FReM) which applies UK GAAP to the public sector
- Draft IFRS compliant manual (I-FReM) issued
 - some areas outstanding, including treatment of PFI schemes
- CIPFA dealing with application for LG

Timescale for Transition

First IFRS based accounts - 2010/11

2010/11 accounts will need to include an opening (transition) balance sheet as at 1 April 2009

- Therefore, closing 2008/9 balance sheet will need to be restated.

Accounting policy changes are retrospective, they should be reflected in the opening balance sheet as if authorities had always accounted under IFRS.

Budgets for 2010/11 should have been prepared on an IFRS basis by January 2010.

IAS 1 - Presentation of Financial Statements

Key Standard

- addresses
 - objective of financial statements
 - general requirements e.g. fair presentation
 - overall considerations
 - overall structure and content

Presentation of Financial Statements

UK GAAP	IFRS
Balance Sheet	Balance Sheet
Income and Expenditure Account	Income Statement
Cashflow Statement	Cashflow Statement
STRGL	SORIE
Movement in s/h funds	Statement of Changes in Equity
Notes to the accounts	Notes to the accounts

Changes under IFRS reporting

Significant differences for many organisations including:

- Leases (IAS 17)
- Valuation of assets
- Holiday pay accrual

Changes under IFRS reporting

Some differences for most organisations

- Tangible fixed assets (IAS 16, 23, 36, IFRS 5)
- Intangible assets (IAS 38)
- Investment property (IAS 40)
- Primary Financial Statements (IAS 1 & 7)
- Accounting policies (IAS 1 & 8)
- Employee benefits (IAS 19)
- Related party transactions (IAS 24)

Accounting for Leases (IAS 17)

May result in more leases being accounted for as finance leases

- separate consideration of land and buildings
- accounting based on qualitative assessment of risks and rewards

Accounting for Leases (IAS 17)

- IAS17: property leases to be accounted for as separate leases of land and buildings
- Elements of existing leases could be reclassified from operating to finance or vice versa
- Council will be required to review its leases to identify any reclassifications
- Involve property, legal and finance staff

Fixed Assets (IAS 16)

Referred to as Property, Plant and Equipment under IFRS

Key changes:

- Depreciation - Useful life reviewed each year end
- Residual (current) value reviewed each year end
- Revaluations - move from every 5 years to regularly

Valuation of Assets (IAS 16)

- Component accounting: No need to separate assets into components for the transition balance sheet.
- Component accounting when assets are replaced or revalued from 1 April 2010.
- Fixed Asset Register will need to be able to record this information

Employee Benefits (IAS 19)

- IAS 19 - requirement for authorities to accrue for employee benefits as they are incurred.
- Impacts on (if material): holiday pay, flexi-time
- Untaken leave as at 31 March will need to be included in the balance sheet as a liability

Implications for Stevenage

Impact of restatement on balances and reported financial position

Preparing for the transition:

- Time and resource implications
- Fit for purpose systems - changes may be required to finance, HR, property systems
- Cost implications - use of specialists, changes to systems, training costs etc

Preparing for the Change

Early planning is critical to ensuring that IFRS can be successfully implemented.

- Project Plan
- Project Team
- Identify key focus area
- Identify systems and procedural changes
- Internal training
- External consultations and discussions

Financial and Accounting Systems

Key systems that may need changing to cope with move to IFRS

- Financial and Reporting systems
- Procurement Systems
- HR records
- Time recording for employees
- Asset management systems and asset registers

Progress so far....

(source: Audit Commission IFRS Survey)

- Governance and oversight is weak
- Approaches to resourcing vary significantly
- External support is often required
- Multi-departmental engagement is required
- Authorities are behind the suggested timeline

More Information

- External advisors
- External Audit team
- Financial Reporting Advisory Group (FRAG) specialists
- I-FReM available through HM Treasury
www.financial-reporting.gov.uk
- CIPFA FAN - How Local Authorities can Prepare for the Introduction of IFRS in 2010/11