ABERDEEN CITY COUNCIL

COMMITTEE	Audit and Risk
DATE	19 January 2010
REPORT BY:	City Chamberlain
TITLE OF REPORT	International Financial Reporting Standards (IFRS)
REPORT NUMBER:	CG/10/012

1. PURPOSE OF REPORT

1.1 To inform the Members of the Audit and Risk Committee of the various matters relating to the implementation of the International Financial Reporting Standards (IFRS) by the Council.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

a) consider the content of the report and note the project team approach that's been adopted to deliver successful implementation;
b) instruct that Directors actively engage in the process of implementation and ensure that their senior managers are made aware of the need to participate in the process; and
c) note that further updates will be provided during the course of the implementation.

3. FINANCIAL IMPLICATIONS

3.1 There are costs associated with the implementation, including the purchase of support, guidance and advice from a partnership of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Pricewaterhouse Coopers (PwC), as well as the internal costs associated with staff time to undertake the analysis, calculations and associated changes.

3.2 At this time resources will be available from within service budgets in order to make the necessary changes, ensuring that wherever possible instructions to external contractors and internal staff take into account the IFRS requirements to ensure that activities are not duplicated as the process of change proceeds.

3.3 The Committee will be advised of any specific resource requirements that cannot be met from within budgets.

4. SERVICE & COMMUNITY IMPACT

4.1 The impact on Services is that they engage in the process of change to the way in which the Council accounts are prepared and presented and ensure that the skilled resources are in place to support the process.

4.2 There is an impact on all Services with data being required from each part of the Council in order to gather relevant evidence and statistics to ensure that the figures and notes associated with the various standards can be incorporated into the accounts.

4.3 Accounting staff will see the biggest changes however it should not be underestimated the impact on other Services, particularly for Asset Management staff, where the changes are more numerous.

5. OTHER IMPLICATIONS

5.1 There will be system and process changes that require to be included as part of the implementation and these will be incorporated as the various activities are worked on throughout this implementation period.

6. REPORT

6.1 As part of the 2007 Budget, the Chancellor set out the requirement for government bodies to adopt International Financial Reporting Standards (IFRS), with the intention of bringing benefits in consistency and comparability between financial reports and to follow private sector best practice. The intention is for Local Authorities and various other public bodies, to prepare IFRS accounts in full for the financial year 2010/11.

6.2 This new reporting regime will bring significant challenges for the Council as it is likely to result in changes being made to accounting policies, the format and content of financial statements and the systems necessary for preparing them.

6.3 Although the financial year 2010/11 is the first year in which IFRS compliant accounts will be prepared and published, it is important that the 2009/10 Accounts are re-stated in order to provide comparative figures. The process of preparing an opening Balance Sheet as at 1 April 2009 is currently on-going, however the intention is to have this completed and ready for the end of February 2010. As noted in Sections 4 and 5 above the information requirements for IFRS compliant accounts and financial reporting span the whole of the organisation.

6.4 A service is being provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Pricewaterhouse Coopers (PwC) to provide technical advice and support throughout the whole IFRS transition process. Most Scottish Local Authorities are signed up to use this service, with the intention of ensuring a smooth IFRS transition process.

6.5 The initial adoption of IFRS will involve significant investment of management time and extends beyond the realms of finance. Effective implementation of IFRS will involve Council-wide engagement and as such, senior management involvement is required from an early stage.

6.6 Under IFRS, the Council will be required to account separately for leases of land and buildings (previously these may have been treated as one lease) with land normally treated as an operating lease. Where possible, the Council will then need to attribute values to the land and buildings components within each property lease in order to account for each element separately. The decision of whether a lease is treated as a Finance or Operating Lease will become more subjective and will require guidance from professional property valuers.

6.7 There are also a number of changes relating to the accounting of fixed assets. Under IFRS, if a fixed asset is available for immediate sale, is being actively marketed and if completion of the sale is expected within twelve months, the asset should be classified as a non-current asset held for sale and should be held on the balance sheet at the lower of carrying value and 'fair value less costs to sell'. Depreciation on such assets should cease. The implementation of IFRS also introduces the concept of accounting for the different components of assets separately. For instance, breaking the value of a property down into various components (e.g. roof, kitchens, bathrooms, lifts, etc.) and depreciating these values separately.

6.8 Furthermore it is necessary to consider the categorisation of assets and in particular the Council will have to look at its Investment Property portfolio and potentially re-categorise some of these.

6.9 Currently, public bodies have only recognised the salary and associated pay costs for the periods up to the end of the financial year. The Council does not recognise accruals at year end for staff holiday entitlement which hasn't been taken (and which is 'carried forward' from one financial year to the next). However, under IFRS, this will need to be calculated and accounted for. It is expected that all public bodies will either recognise any untaken holiday pay as an accrual or will perform sufficient analysis in this area to satisfy their auditors that it is not a material amount and therefore does not need to be recognised.

6.10 As the Council has a Public Private Partnership agreement (the 3's Project) in place there will be a change in the accounting for the unitary charge, with a fundamentally different approach being taken under the IFRS requirements. This approach looks at the aspects of control of an asset.

6.11 Where it is deemed that the Council has control of the asset, then it should appear on the Council balance sheet. Examples of control include specifying the services to be provides from a particular asset, and regulating the price paid for the services. This element is to be incorporated into Council accounts for financial year 2009/10, a year ahead of the other requirements. The Council has received specific support, practical advice and help in relation to achieving this from CIPFA and PwC.

6.12 The Council has identified key stakeholders and set up a small Project Team and are finalising a detailed project plan, breaking down the transition into separate work streams to which individuals can be assigned. This process will involve the help and support of CIPFA and PwC as part of the agreed contract.

6.13 An internal audit scope has been included in the 2009/10 audit plan and work to look at the approach and outcomes to date is scheduled to be carried out in the last quarter of 2009/10.

7. **AUTHORISED SIGNATURE**

Susan Cooper, City Chamberlain
sucooper@aberdeencity.gov.uk
01224 522551

8. **REPORT AUTHOR DETAILS**

Jonathan Belford, Corporate Accounting Manager
jbelford@aberdeencity.gov.uk
01224 522573

9. **BACKGROUND PAPERS**

None