

# DEVON & SOMERSET FIRE & RESCUE AUTHORITY



<b>REPORT REFERENCE NO.</b>	DSFRA/09/21
<b>MEETING</b>	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
<b>DATE OF MEETING</b>	14 JULY 2009
<b>SUBJECT OF REPORT</b>	INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
<b>LEAD OFFICER</b>	Treasurer
<b>RECOMMENDATIONS</b>	<p><i>That the Authority notes the following:</i></p> <p>(a) <i>the accounting changes required and the timetable for implementation of IFRS;</i></p> <p>(b) <i>the role of the Audit and Performance Review Committee, in relation to the transition;</i></p> <p>(c) <i>that the financial implications from the change will be assessed as part of the review of the Medium Term Financial Plan.</i></p>
<b>EXECUTIVE SUMMARY</b>	This report is aimed at raising awareness of the required transition to International Financial Reporting Standards (IFRS) based reporting, and the establishment of a small officer steering group to manage the transition, reporting to the Audit and Performance Review Committee.
<b>RESOURCE IMPLICATIONS</b>	At this stage it is not possible to assess the full financial implications of the change, subject to further clarification of the implications of the new Code of Practice. Any implications will need to be included within the Authority's Medium Term Financial Plan.
<b>EQUALITY IMPACT ASSESSMENT</b>	An initial assessment has revealed that there are no equality issues arising from this report.
<b>APPENDICES</b>	Nil.
<b>LIST OF BACKGROUND PAPERS</b>	Nil.

## 1. INTRODUCTION

1.1 The annual statement of accounts for local authorities is currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UK GAAP). In order to bring benefits of consistency and comparability between financial reporting in the global economy and to follow private sector best practice, the Treasury announced in the Chancellors 2008 Budget that all public sector bodies must move to the International Finance Reporting Standards (IFRS). The Chartered Institute of Public Finance (CIPFA) has therefore announced a new governance framework for the Code of Practice on Local Authority Accounting.

1.2 The new Code, currently being developed by the Financial Reporting Advisory Board (FRAB), must be available to comply with the following timetable;

	2008/2009	2009/2010	2010/2011
NHS	Comparatives	IFRS	
Central Government	Comparatives	IFRS	
<i>Local Government</i>		<i>Comparatives</i> <i>Whole of Government Accounts</i>	<i>Full IFRS</i>

1.3 Whilst fully compliant accounts for local government are not required until 2010/2011, because of the need to provide full comparative data, the date of transition is set by IFRS1: *First time adoption of international financial reporting standards* as **1<sup>st</sup> April 2009**, and we will need to prepare an opening balance sheet that is IFRS compliant as at that date.

1.4 The move to IFRS will be extremely complex and will require additional disclosures to be included in the statement of accounts, which will significantly increase the size and effort of the production of the Accounts.

1.5 Experience in the Private Sector, and more recently from the National Health Service and central government departments, has shown that the move to IFRS represents a significant change and should not be underestimated in terms of additional pressures that will be put on, not only the Accountants, but also staff in Human Resources, ICT, Surveying and other functions. Listed in the Table overleaf are just some of the differences that will apply to local authorities, as identified from previous experience advised by a study commissioned by Price Waterhouse (PWC).

<b>Significant Changes</b>	<b>Some Changes</b>	<b>Minor Changes</b>
Increased disclosures	Tangible Fixed Assets	Inventories
First Time Adoption	Accounting Policies	Provisions
Segment Reporting	Presentation of financial statements	Government Grants
Investment Property	Cash Flow Statements	Post Balance Sheet Events
Infrastructure Assets	Employee Benefits	
Leases	Related Party Transactions	

## **2. IMPLEMENTATION**

2.1 A phased approach will be adopted for the transition, as follows;

**Preliminary Study** – an initial impact analysis and planning the later phases. This work has already commenced including working in partnership with other Devon councils who have set up a group to oversee the project and to share best practice. Members of the Finance Team have also attended several CIPFA training events to scope initial requirements.

**Phase 2** – detailed steps necessary to fully prepare the first complete IFRS statements.

**Phase 3** – gathering issues and solutions arising in completing the conversion, and integrating those into our underlying processes and systems.

2.2 To monitor progress of the transition a small IFRS officer steering group has been established comprising the Principal Finance Manager and Senior Finance Manager, with the Head of Financial Management as the Project Manager. Representatives from other departments, primarily Estates and Human Resources, will also be included to take forward relevant issues. Reports will be taken to the Audit and Performance Review Committee at key stages of the project to monitor progress and make recommendations as required. The next update report will be presented to the meeting of the Audit and Performance Review Committee to be held in September 2009.

## **3. FINANCIAL IMPLICATIONS**

3.1 At this stage it is not possible to quantify the full financial implications of the change as CIPFA are still working with the Treasury and other agencies on the implications of the new Code. Some of the changes will be merely changes in the accounting requirements; however other changes have the potential to bring about additional costs to future year budgets. For instance, IFRS will require untaken holiday pay to be accrued at the year-end, which is not currently included in the base budget. Changes to the treatment of leases, particularly those that will be classified as finance leases may also bring about additional revenue costs.

3.2 Senior Management will also need to consider whether it has sufficient existing resources available, at the required times and with the necessary capabilities, within the organisation to ensure that the project can be delivered successfully. For the current year it is anticipated that the changes can be made within existing resources, however this will need to be kept under constant review as the project moves forward.

3.3 An assessment of potential costs from the changes will need to be considered as part of the medium term financial planning process.

**4. SUMMARY**

- 4.1 The Authority is required to have fully implemented IFRS in time for the completion of the 2010/2011 accounts. Whilst this may seem some time away, because of the need to provide previous year comparable figures the effective date for local government is 1 April 2009. This means that work is already underway to prepare for the change.
- 4.2 A small officer steering group has been established to monitor progress. Reports will be presented to the Audit and Performance Review Committee at key stages of the project, to ensure that the project is on track and to make recommendations as required.

**KEVIN WOODWARD**  
**Treasurer**