



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Report of the Chief Fire Officer

Agenda Item No:

Date: 08 January 2010

Purpose of Report:

To inform Members of the introduction of International Financial Reporting Standards and of the impacts this is likely to have on the Authority.

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1. BACKGROUND

- 1.1 Fire and Rescue Authorities, in common with other Local Authority organisations, currently prepare accounting statements in accordance with UK Generally Accepted Accounting Practice (known as UK GAAP). UK GAAP is a body of regulation which determines how all public and private sector organisations must prepare accounts, and it comprises both Financial Reporting Standards and legislative requirements.
- 1.2 In addition to UK GAAP, local authority organisations must also prepare their accounts in accordance with specific guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This takes the form of an annually updated Statement of Recommended Practice, which is commonly referred to as the "SORP".
- 1.3 The Government's Financial Statement and Budget Report, published in March 2007, stated that "in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, accounts will be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector."
- 1.4 Since this announcement a timetable for the implementation of IFRS within the public sector has been drawn up, with Central Government and the NHS being the first to adopt and Local Authorities, Police and Fire and Rescue Authorities following.
- 1.5 CIPFA is currently working on a new governance framework and IFRS-based code of practice on local government accounting which will apply to local authority accounts with effect from 1 April 2010. This has passed through a consultation process but has not yet been published.

2. REPORT

- 2.1 The broad timetable for IFRS implementation is as follows:

Up to March 2010	Prepare for IFRS implementation
March 2010	Restate the 1 April 2009 Balance Sheet on an IFRS basis
April – June 2010	Close accounts for 1 April 2009 to 31 March 2010 on a UK GAAP basis and simultaneously consider changes required to convert to an IFRS basis (for comparative figures and Whole of Government Accounts)
August 2010	Prepare Whole of Government Accounts for 1 April 2009 to 31 March 2010 on an IFRS basis
April – June 2011	Close accounts for 1 April 2010 to 31 March 2011 on an IFRS basis

- 2.2 Preparation for IFRS implementation is already underway. Accountancy staff within the Finance Department are attending training seminars and using networking forums to gain an understanding of the relevant international standards. A core project team has been formed within the Finance Department, a detailed project plan has been drawn up and staff are currently identifying the potential impacts.
- 2.3 Guidance from CIPFA and the Audit Commission has identified that the implementation of some International Financial Reporting Standards may cause a budgetary impact. This is a cause for concern, however it is hoped that when the CIPFA IFRS-based code of practice on local government accounting is published, it will contain provisions to negate adverse budgetary impacts in the same way that the current SORP does, for example in respect of accounting for depreciation on fixed assets, which does not impact on Council Tax.
- 2.4 An external consultant will be engaged for a short time period to provide an independent and objective assessment of the work done by the project team. This will provide quality assurance and minimise the risk of errors in the accounts at a later stage.
- 2.5 The external auditors have assessed the Authority's progress to date on implementation and have found no areas of significant concern. Whilst auditor independence means that the auditors cannot advise on exactly what is required to comply with IFRS, they have indicated that they are available for discussing issues in principle and can review work carried out.
- 2.6 Key areas of change as a result of IFRS implementation have been identified as follows:

The annual published Statement of Accounts will be a longer document, with changes to some of the formats of accounts and a significant increase in disclosure requirements for many areas of the accounts.

Accounts will also have to be reported in accordance with the management structure of the organisation e.g. with an accounting statement for each department.

Some of the Authority's accounting policies will have to change.

Some new disclosures will require changes to the way we record and account for items and both manual and ICT processes and systems may need amending. Not all of these changes affect the Finance Department only e.g. we will have to account for the value of employee benefits in the year they are earned, which means that a value must be placed on the outstanding annual leave of employees. This will require close liaison with the Personnel Department.

Contract documentation will have to be examined to assess whether or not accounting treatment needs to change e.g. in respect of leased assets.

The Authority's properties will need to be assessed to see whether significant elements within buildings, such as a lift, have differing economic lives. Where this is the case then the accounting treatment will change.

- 2.7 The change to accounting on an IFRS basis is the most significant change to accounting for all types of organisations in many years. Some local authorities are engaging consultants to implement IFRS but this Authority is taking the approach that the implementation is best carried out by internal staff, who understand the business and can gain the skills necessary to fully implement the new requirements both for the immediate and the future. It must be recognised, however, that this has placed a high burden of additional work upon staff and this situation must be carefully managed.

3. FINANCIAL IMPLICATIONS

The financial implications are set out within this report. An earmarked reserve of £33k was set aside at the end of 2008/09 to cover the costs of implementation. This will be used to pay for an independent consultant as outlined in paragraph 2.4, to pay for the Authority's treasury management advisers to review leasing contracts and to fund additional training requirements for Finance Department staff and, if necessary, for Members.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

- 4.1 There are additional learning and development needs for accountancy staff in the current financial year and possibly for Members at a later stage. The Treasurer to the Fire Authority will also need to be kept up to date with the new requirements. These needs are being identified and actioned as the implementation progresses.
- 4.2 An external consultant will need to be engaged as outlined in paragraph 2.4.

5. EQUALITY IMPACT ASSESSMENT

There are no equality implications arising directly from this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

Many accounting requirements are statutory, and it is essential that the Authority complies with International Financial Reporting Standards and the future CIPFA IFRS-based code of practice on local government accounting to remain within the law.

8. RISK MANAGEMENT IMPLICATIONS

Accounting standards are very detailed, can be complex and in some cases require interpretation. There is therefore a risk that the Authority may not comply with the requirements of IFRS and this would result in audit qualification of the accounts. To reduce this risk, accounting staff are attending training courses, sharing good practice with staff in other similar organisations and will be liaising with auditors at a later stage. In addition, an independent review of the work done by accounting staff will be undertaken.

9. RECOMMENDATIONS

That Members note the contents of this report.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER