



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS - UPDATE

Report of the Chief Fire Officer

Agenda Item No:

Date: 09 April 2010

Purpose of Report:

To update Members on progress towards the introduction of International Financial Reporting Standards.

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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 has now published an IFRS-based code of practice on local government accounting which will apply to local authority accounts with effect from 1 April 2010.
- 1.6 An overview of how the Authority is preparing for these new requirements was provided in a report to Members of the Finance and Resources Committee in January 2010. It is intended that regular reports on IFRS implementation will be presented to this Committee so that Members can monitor progress and seek assurance that statutory requirements will be met.

2. REPORT

- 2.1 The outline project plan for IFRS implementation is attached at Appendix A. Work in the Finance Department has been focused on early preparation for IFRS and the High Level Impact Assessment. The plan shows that up to the end of February, tasks were largely on track except for task 5 – budgetary impacts of IFRS. The assumption has been made that accounting arrangements will be put in place by CLG to neutralise any budgetary impacts caused by IFRS implementation under the principles of New Burdens, however no details of this have been published as yet. In addition,

work is still ongoing to calculate potential impacts on the budget and more detail on this is given in paragraph 2.5.

- 2.2 The detailed work on areas of change (task 6) is well underway but will not be completed by 31 March 2010. This is primarily due to the fact that the current systems do not easily provide the data required and additional work is needed. Managers across the Service are aware of requirements and are assisting with providing data to move this forward. This will also impact on achieving task 7 but it is expected that both tasks will be finished during May 2010.
- 2.3 The consultancy services of a company specialising in IFRS implementation were purchased and a consultant visited the Service in February, providing training to Finance staff and independent checking of the High Level Impact Assessment. Copies of this assessment will be made available to Members at the Committee meeting.
- 2.4 The High Level Impact Assessment has identified five key areas of medium to high impact for the Authority. These are:
 - 2.4.1 Leases – review required of all leases and their classification.
 - 2.4.2 Property, Plant and Equipment – identification of components and requirement to annually review residual values, economic lives and impairments.
 - 2.4.3 Segmental Reporting – disclosure of the financial performance of different operating elements of the organisation.
 - 2.4.4 Employee Benefits – accounting for services provided by employees at year end where a liability exists.
 - 2.4.5 Format of the Statement of Accounts – significantly more disclosures plus changes to statements and terminology.
- 2.5 Work has started on the review of leases and is ongoing. Initial discussions have also taken place with the District Valuation Office with regards to property valuation, and vehicle valuation issues are being investigated. The most significant task to date has been the identification of annual leave owed to employees at 31 March 2009 and preparation for identifying the same at 31 March 2010. Managers across the Service have been briefed about this impact of IFRS and are working with the Finance Department to ensure that information is supplied. The restatement of the 2009/10 opening balance sheet cannot be undertaken until much of this work is complete.
- 2.6 The issues of segmental reporting and the format of the 2010/11 Statement of Accounts will be considered in the next phase of the project.
- 2.7 The external auditors have strongly recommended that Finance staff engage with them in discussions about IFRS implementation so that the auditors can comment on the arrangements being put in place at an early stage. This type

of communication already happens at the financial year end and has done for a number of years, so a list of IFRS issues for discussion with auditors is being maintained.

- 2.8 The Audit Commission has published a “Checklist for Members” and is recommending that authorities make the checklist available to Members serving on the Audit (or equivalent) Committee. This checklist is shown at Appendix B and Members are invited to ask Officers any questions arising at the meeting.

3. FINANCIAL IMPLICATIONS

An earmarked reserve of £33k was set aside at the end of 2008/09 to cover the costs of IFRS implementation. This was intended to cover the cost of an independent IFRS consultant, potential additional costs relating to the review of leasing contracts and to fund additional training requirements for Finance Department staff and, if necessary, for Members. To date, the sum of £2,000 has been paid for consultancy services.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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.

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)

- High Level Impact Assessment (to be made available at the meeting).

Frank Swann
CHIEF FIRE OFFICER

Outline Project Plan for IFRS

Activity name	Deliverable	Date Required by:	Status:
Project planning	Work proposal & milestones	31/07/2009	Complete
Prepare High level Impact Assessment	Paper based impact analysis	31/10/2009	Complete
Feedback on High Level Impact Assessment	Independent assessment of completeness and quality of HLIA	30/11/2009	Complete
Report to F&R Cttee and CMB on IFRS project	Committee Report giving background and outline detail	08/01/2010	Complete
Budgetary Impacts of IFRS	Budget 10/11 onwards incorporates potential financial impacts of changes	31/01/2010	Outstanding
Detailed work on areas of change eg fixed assets, leases, employee benefits	Proposed new accounting policies	31/03/2010	Outstanding
Restate 1 April 2009 Balance Sheet	Restated opening balance sheet with full workings	31/03/2010	Outstanding
Skeleton Statement of Accounts 2010/11	Skeleton Statement of Accounts 2010/11	31/03/2010	Outstanding
Report to F&R Cttee on High Level Impact Assessment	Committee Report	09/04/2010	Outstanding
Report to F&R Cttee and CMB on IFRS project	Committee Report (possibly within final accounts report) giving update on progress	25/06/2010	Outstanding
Consider 2009/10 accounts on IFRS basis during closedown		30/06/2010	Outstanding
Draft set of accounting policies to F&R Committee for approval	Committee report	09/07/2010	Outstanding
Complete Whole of Government Accounts on IFRS Basis for 2009/10	WGA 2009/10 approved by Auditors	31/08/2010	Outstanding
Close accounts for 2010/11 on IFRS basis		30/06/2011	Outstanding

Audit Commission – Countdown to IFRS
Checklist for Members

- Have we assessed what impact IFRS will have on our authority?
- What role should the audit committee play in supporting the transition to IFRS?
- How much is it going to cost? What is the impact on our budgets?
- Do we have a project plan? How are we doing against this plan? Are we where we need to be?
- What are the main problem areas?
- Do we have the skills and expertise to resolve them? Are we taking any external advice?
- What are the risks to delivery and are these included in the risk register? What are we doing to mitigate these risks?
- What are the consequences for us if we don't achieve the transition to IFRS according to the plan?
- Have we engaged with the external auditors?
- Are we producing mock/shadow accounts in IFRS format? What is the audit committee's role in reviewing these?