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Date: 23 April 2010

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - FRIDAY, 30 APRIL 2010

I am now able to enclose, for consideration at next Friday, 30 April 2010 meeting of the Governance and Audit Committee, the following appendix that was omitted when the agenda was printed.

Agenda No Item

- 17. International Financial Reporting Standards (Pages 1 - 8)**

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Sass', written in a cursive style.

Peter Sass
Head of Democratic Services & Local Leadership

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By: The Director of Finance – Lynda McMullan
Cabinet Member for Finance - John Simmonds

To: Governance and Audit Committee – 30 April 2010

Subject: International Financial Reporting Standards (IFRS)

Classification: Unrestricted

Summary: This report asks Members to note the changes that International Financial Reporting Standards will have on the Statement of Accounts and the process and resources required to achieve this.

1. Background

- 1.1 The Governance and Audit Committee are responsible for approving the Statement of Accounts each year at the June meeting. This report provides the Committee with a “heads up” on changes to the Statement of Accounts as a result of recent legislation.
- 1.2 The current Statement of Accounts is prepared on a UKGAAP (Generally Accepted Accounting Practice) basis and refers to Financial Reporting Standards (FRS's). In the 2007 budget statement the Chancellor announced that the public sector would be moving to International Financial Reporting Standards (IFRS). This will enable the Treasury to publish a set of accounts that show the financial position of the whole of the public sector in the UK. From 2010/11 the accounts for local authorities will need to be produced on an International Financial Reporting Standards basis (IFRS) in order to publish a consistent set of Whole Government Accounts.
- 1.3 Several of the standards have already been implemented. For the 2007/08 accounts the accounting and disclosures for financial instruments were changed to comply with FRS 25, 26 and 29 – which largely replicate the IFRS, so there will be little impact in the 2010/11 accounts. These changes looked at the recognition and de-recognition and re-measurement of existing financial assets and liabilities. A significant number of disclosures were added including the fair value of assets and liabilities and the key risks. There were also changes to fixed asset accounting in 2007/08 with the introduction of the Revaluation Reserve. These changes have increased the

corporate closedown process by 10-15%, putting significant pressure on our staff and resources.

- 1.4 The current level of resources required to implement IFRS is estimated to be 549 days as per Appendix 1, based on current assumptions. As a good working knowledge of Kent County Council will be essential for this work, no additional resource is sought, but this will obviously deflect staff from other priorities. This will be closely monitored by the Director of Finance.
- 1.5 Members of this Committee should take note of the changes that IFRS will have on the Statement of Accounts as this Committee has corporate responsibility for the signing of the Accounts.

2. Main areas of change

2.1 PFI

For the 2009/10 accounts, changes in relation to PFI need to be made. IFRS requires the accounts to be amended retrospectively which involves the re-visitation of the financial and operating models. For 2009/10 accounts we need to determine whether the assets are "on or off balance sheet". We anticipate from the work we have done to date that all PFI's will be on balance sheet. In essence this will mean that the long term debtor which is on the 2008/09 balance sheet will disappear and will be replaced by the value of the fixed asset and a lease liability. The difference in net worth will depend on how big the variation is between these two elements. There will not be any impact on Council Tax.

2.2 Leases (KCC as lessee and lessor)

Leases are potentially our biggest concern due to a lack of a central repository for the documents. Each document will need to be examined to determine whether it is an operating or a finance lease under IAS17. This has also been raised by our external auditors as a concern. Once all documents are located we will compile a register which will need maintaining. Once we have all the leases we can determine whether there is likely to be a change in their status i.e. changing from operating to a finance lease and vice versa, then we will only need to look at those that are material. Leased properties will need to be split between land and buildings and some buildings may change from being an operating to a finance lease.

A questionnaire was provided to schools as part of their early closedown returns and we hope to have these documents imminently.

We will also need to identify contracts which might have embedded leases. An example of an embedded lease could be where the fulfilment of the arrangement depends on the use of a specific asset or assets and conveys the right to use the asset.

2.3 Component accounting

We will need to be able to identify asset components which meet the criteria for separate accounting. These are where the value is significant compared to the total value of the asset and where it has a different useful life. This will predominantly affect our estate asset base, e.g. potentially items such as boilers and roofs may meet the criteria. This is something that has already been raised with Corporate Property and our Valuer and is in hand. This is not a retrospective change so will apply to those assets that we have revalued from the 1.04.10. It will require additional resource on the asset registers on an annual basis.

This may have a future cost implication in terms of valuations, which will be taken into account by Finance during the next budget round.

2.4 Employee benefits

Employee benefits, including accrued annual and flexi leave and teachers' holiday pay have to be accounted for under IFRS, if material. In essence, this means that we may have to accrue a debt for all of the annual leave and flexi-leave that staff have carried forward into the new leave year. Due to teachers being entitled to two weeks annual leave (for Easter) if they work on the 31st March, it is likely that this will be material.

In order to collect this information we have sent a template to all "supervisors" based on a download from Oracle HR, identifying names of team members but excluding new starts from 1.4.09 and casual and sessional staff. Supervisors will have two columns to complete, one for annual leave and one for flexi leave for each person under their supervision carried over at the end of 2008/09 (as this change is retrospective). For flexi leave we can assume that no more than the 21 hours allowed to be carried forward will be paid for so this will be the maximum entry allowed.

We will also need to know where a different leave year has been agreed.

This will provide a big enough sample to provide an estimate that we can put in the accounts to represent the accrual for untaken leave.

We will then only need to revisit this every few years to adjust for changes.

Again there will be no impact on Council Tax as per Statutory Instrument No 2010/454 which has added a new regulation that negates the impact of this transition to IFRS.

3. Risks

3.1 The main risks that were identified at the start of the project are listed below:

- Non delivery of IFRS compliant accounts to the published timetable.
- Capacity to deliver.
- CIPFA guidance may not be available in sufficient time.
- Documentation, particularly in relation to leases, may be time consuming to find or unable to be found.
- Competing demands on project team.
- Staff insufficiently trained.
- Late changes to accounts will have a greater impact and risk attached.
- Cost of delivery.

3.2 Our current risk assessment is shown on the plan against the tasks. The % complete is also shown. Green signifies that the task is either complete or should achieve the date identified. Amber reflects tasks that have either started or are yet to start but it is uncertain as to whether they will achieve the current complete date but if they don't this will not be a "showstopper". Red signifies a current perceived risk – i.e. the work has not started or has started and there are significant concerns around achieving the dates. At the moment only leases are shown as red and this is largely due to the level of concern over obtaining the documentation.

4. Recommendation

4.1 Members are asked to note this report in conjunction with the Audit Commission report (the following item on this agenda) and the resource plan. Members of this Committee should take note of the changes that IFRS will have on the Statement of

Accounts as outlined in this report as this Committee has corporate responsibility for the signing of the Accounts. The Committee should ensure, as far as possible, that this project is a corporate priority, with adequate provision of resources to ensure that an unqualified set of accounts can be produced for 2010/11.

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Suggested Resource Plan for IFRS implementation

				%complete	Risk	Project Lead for individual task	Team Members
IFRS	549 days	19/10/2009	08/04/11			Cath Head	
S151 Assurance	3 days	19/10/2009	05/11/10			Lynda McMullan	
Project Sponsor	10 days	19/10/2009	05/11/10			Andy Wood	
Project team	5 days	02/11/2009	05/01/10			Cath Head	
Identify lead senior officer	1 day	02/11/2009	02/11/09	100			
Create project team - multi discipline	2 days	04/01/10	05/01/10	100			
Project launch	1 day	01/04/10	01/04/10	20			
TOR for team	1 day	04/01/10	04/01/10	0			
Communication	7 days	21/10/09	16/06/10			Cath Head	
High level report for FSB	1 day	21/10/09	21/10/09	100			
High level report to G&A	2 days	25/03/10	26/03/10	100			
High level report to G&A	2 days	15/06/10	16/06/10	0			
High level report to COG	1 day	09/11/09	09/11/09	100			
High Level report to CEDMT	1 day	09/02/10	09/02/10	100			
Training	20 days	18/01/10	30/07/10			Cath Head	
Deliver training to appropriate staff	20 days	18/01/10	30/07/10	5			Lizi Payne
High level Tasks	27 days	19/10/09	29/01/10			Cath Head	
Assess the areas of impact on the accounts	16 day	19/10/09	19/10/09	40			} Individual task leaders
Budgetary impact of IFRS implementation	3 days	04/01/10	06/01/10	75			
Identify any changes required to systems	3 days	11/01/10	29/01/10	50			
Review CIPFA guidance notes when they come out -January?	5 days	04/01/10	05/01/10	60			
0809 Restatement	27 days	12/07/10	30/07/10			Cath Head	
Capture the required data for the 2008/09 restatement	27 days	12/07/10	30/07/10	10			Individual task leaders
0910 Restatement	27 days	13/09/10	01/10/10			Cath Head	
Capture the required data for the 2009/10 restatement	27 days	13/09/10	01/10/10	10			Individual task leaders
PFI/PPP IFRIC 12	74 days	09/11/09	19/03/10			Julie Samson	
Review every PFI contract	15 days	09/11/09	04/12/09	85			} Lizi Payne Jane Blenkinsop Simon Pleace Gary Hughes Cath Head Andrea Melvin External resource?
Review every original financial model	15 days	09/11/09	04/12/09	85			
Review every updated financial model	15 days	09/11/09	04/12/09	85			
Contact Grant Thornton/KPMG if required	1 day	07/12/09	07/12/09	0			
Questions	0 days	09/11/09	09/11/09				
Does the property revert to the local authority at the end of the contract?	0 days	09/11/09	09/11/09				
Do we control or regulate services and price?	0 days	09/11/09	09/11/09				
Do we control residual interest if significant?	0 days	09/11/09	09/11/09				
Were assets constructed or acquired for purpose of arrangement?	0 days	09/11/09	09/11/09				
If answer = YES, account for as if in place at start of contract	0 days	09/11/09	09/11/09				
Get final version of operators model to get figures for balance sheet	0 days	09/11/09	09/11/09				
Policy on lifecycle maintenance elements?	0 days	04/12/09	04/12/09				
IFRIC12 Decision Tree	0 days	04/12/09	04/12/09				
Establish original construction costs	5 days	09/11/09	09/11/09	90			
Identify fair value of assets	5 days	09/11/09	09/11/09	90			
Calculate implicit interest rate	5 days	09/11/09	09/11/09	90			
Review and adjust previous years entries	7 days	15/03/10	19/03/10	5			
Account for PFI changes	6 days	15/03/10	19/03/10	15			
Segmental reporting	2 days	09/08/10	10/08/10			Cath Head	
Agree how we will present segmental reporting - portfolio/directorate?	1 day	09/08/10	09/08/10	20			} External audit
Agree with external auditors	1 day	10/08/10	10/08/10	0			
Property Plant and equipment (PPE)	50 days	01/04/10	27/08/10			Ruth Giles	
All assets to be measured at fair value (EUV)	10 days	23/08/10	27/08/10				} Property resource Cath Head
If the asset is specialist i.e. a school then this should be measured at DRC	5 days	23/08/10	27/08/10				
From 1 4 2010 identify component exp separately and derecognise existing components	20 days	01/04/10	14/04/10				
Change to accounting for revaluations of investment property.	5 days	01/04/10	01/04/10				
Rewrite asset registers	10 days	01/04/10	14/04/10				

Leases (Authority as Lessor, lessee in relation to PPE)	125 days	23/11/09	22/10/10	10		Lizi Payne Legal Resource Ruth Giles Property Resource Directorate resources? External resource Jo Lee Alison Bagnall
Obtain all leases - directorates/property/legal	20 days	15/03/10	30/07/10	5		
Obtain schools leases	10 days	22/03/10	02/04/10	40		
Separately identify land and buildings leases and reclassify where appropriate	15 days	05/04/10	23/04/10	5		
Walk through 5 tests of IAS 17	35 days	26/04/10	14/05/10	0		
Account for separately	24 days	20/09/10	22/10/10	0		
Review leases where we are the lessor	20 days	12/07/10	17/09/10	0		
Establish if investment property	1 day	23/11/09	23/11/09	0		
Lease type arrangements	40 days	08/03/10	30/04/10	10		Lizi Payne
Identify contracts that could potentially have lease implications	40 days	08/03/10	30/04/10			
Intangible Assets	10 days	12/07/10	20/07/10	0		Cath Head Jackie Hansen
Clarify definition - SORP says computer software	2 days	12/07/10	13/07/10			
IAS 38 recognises a wider range of assets - review for potential new IA's (e.g. web sites)	8 days	14/07/10	20/07/10			
Impairment of Assets	25 days	12/07/10	08/04/11	0		Ruth Giles Property Resource
Assess impairment	15 days	12/07/10	23/07/10			
Account for both types of imp against the Rev Reserve - IAS 36 no longer makes the distinction	10 days	04/04/11	08/04/11			
Non-current Assets Held for sale	10 days	26/07/10	30/07/10	0		Cath Head Jo Lee
Review held for sale assets - accounting policy and accounting	10 days	26/07/10	30/07/10			
Employee Benefits (Annual Leave, Flexi and Teachers holiday pay)	35 days	16/11/09	25/06/10	10		Cath Head Personnel resource FOG Lisa Wright
Establish current terms and conditions	2 days	16/11/09	20/11/09	80		
Establish carry forward policy	2 days	16/11/09	20/11/09	10		
Establish policy adherence	1 days	16/11/09	20/11/09	100		
Determine what assumptions should be made and size of sample	1 day	23/11/09	23/11/09	50		
Collate data from directorates using downloads from HR	20 days	10/05/10	25/06/10	10		
Collate data from schools	7 days	10/05/10	21/05/10	0		
Consider materiality/significance of derived figure	1 day	24/05/10	24/05/10	0		
Amend accounts if required under postemployment benefits	1 day	25/05/10	25/05/10	0		
Pension Fund accounts	10 days	06/09/10	17/09/10	0		Jane Gibbons
Ensure changes to Pension Fund accounts meet new IFRS standards	10 days	06/09/10	17/09/10			
Group Accounts	12 days	06/09/10	17/09/10	0		Cath Head Novella Davies Val Moon
Review group accounts in light of IFRS changes	12 days	06/09/10	17/09/10			
Accounting Policies	10 days	05/07/10	16/07/10	0		Cath Head Lizi Payne
Review accounting policies where appropriate	5 days	05/07/10	09/07/10			
Rewrite new policies and agree with D of F	5 days	12/07/10	16/07/10			
IFRS 1	20 days	30/08/10	05/11/10	0		Cath Head Dominic Magner Lisa Wright
Assess the impact of the revised standards on the format of the accounts	5 days	30/08/10	30/08/10			
Re format accounts and re-write reports	15 days	18/10/10	05/11/10			