

CIPFA FINANCE ADVISORY NETWORK

**HOW LOCAL AUTHORITIES  
CAN PREPARE FOR THE  
INTRODUCTION OF IFRS  
IN 2010/2011**

MARCH 2009

AT THE HEART OF  
PUBLIC SERVICES



Grant Thornton

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# 1. INTRODUCTION TO THE NOVEMBER/DECEMBER 2008 FAN PRACTITIONER SESSIONS ON PREPARING FOR IFRS IN LOCAL GOVERNMENT

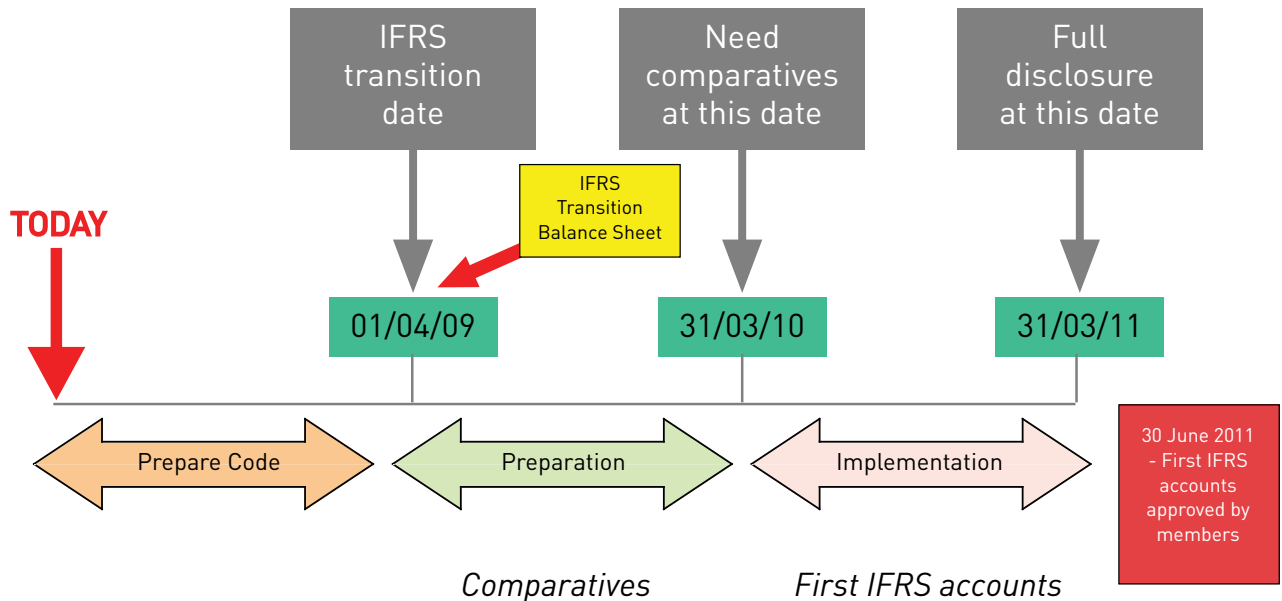
- 1.1 In November/December 2008 the CIPFA FAN ran a very successful workshop series in partnership with Grant Thornton on the definitive introduction to IFRS in local government. It was delivered to over 500 delegates in 14 UK locations and the delegate feedback was very positive. This document summarises the delegate responses to a number of themed questions on the IFRS implementation agenda which will help authorities focus on what still needs to be done. Not all the questions can be fully answered at this stage as CIPFA is intending to produce the final draft version of its IFRS accounting Code in the summer of 2009. Nevertheless, this document acts as a valuable resource in getting authorities to think about what needs to be done, who might need to do it, how it can be tackled and by when. It is precisely these areas that authorities need to start considering straight away. The excellent level of workshop participation underpinned the need for further practical guidance for IFRS implementation.
- 1.2 In terms of the series workshop sessions, attendees were split into groups and considered a number of themes when approaching the IFRS agenda as follows:
- Theme A** – What are the capital asset recognition and measurement issues under IFRS and how might they be tackled and by when?
- Theme B** – What might be the issues around presentation of financial statements under IFRS and how might they be resolved and by when?
- Theme C** – Which areas of an authority’s budget might require mitigation regulations protection to ensure that any foreseen IFRS driven elements do not impact unwittingly on the General Fund?
- Theme D** – What changes to financial and non-financial systems are required to ensure an authority makes a successful transition to IFRS and by when?
- Theme E** – How might an authority plan for a successful implementation of IFRS and what level and quality of resources might it require to achieve such an implementation?
- Theme F** – How might an authority communicate and explain the effects of the new IFRS regime to its key internal and external stakeholders and by when?
- Theme G** – With whom might you work with in different parts of the authority and relevant external bodies to ensure a smooth transition to IFRS?
- 1.3 The above themes were intended to offer a comprehensive guide to the processes of introducing IFRS into local government. A recurring point from all the IFRS deliberations was the issue of obtaining adequate information about the nature of current transactions; be they capital or revenue based. Authorities need to be sure of the information around their current transaction accounting and this may involve them in analysis and research especially as it might relate to Private Finance Initiative (PFI) and lease transactions.
- 1.4 The basis for introducing IFRS is principally one of a retrospective approach. Authorities will have to account under IFRS as if they have always followed IFRS rules and this will involve going into the past and replacing the previous UK GAAP based transactions with the transactions that would have been relevant had IFRS always applied. This will present authorities with the challenge of a new way of thinking and it will take some adjustment in our thought processes. In a way, it can be thought of as a “Back to the future” type approach where past elements will be replaced by new approaches. Under IFRS 1, the key transition standard, there is scope for exemption from the application of some IFRS’s on the basis of either cost or retrospective application (where the financial result of a past decision is already known). Early indications from CIPFA and the Audit Commission are that there will not be much scope for exempting authorities from the application of certain IFRS’s during any transition to IFRS. Authorities will probably need to adopt a fully retrospective approach in most cases.

- 1.5 The key year for moving to IFRS will be 2010/2011 but it would be misleading for authorities to think that they have 18 months of grace not to prepare. A transition balance sheet on an IFRS basis will need to be produced reflecting an authority's IFRS position as at the 1st of April 2009. Authority budgets for 2010/2011 will need to be prepared on an IFRS basis by January 2010 and the CLG and devolved administrations will need to be aware of any effects on the general fund/ council fund resulting from moves towards IFRS so that they might introduce mitigation regulations to attempt to ensure that there will be a limited effect on general fund/council fund levels as a result of any material changes. Authorities will have a critical role in identifying these potential IFRS based effects because there may well be some unusual changes that CLG/devolved administrations may not be able to identify because they do not possess the experience of practitioners on the ground. The resource challenges of moving towards IFRS will also need to be addressed both for larger and smaller authorities. The latter could consider clustering together and jointly paying for a resource (s) to work on IFRS implementation.
- 1.6 The whole range of CIPFA FAN IFRS series documentation can be found for FAN subscribers on the CIPFA FAN website at: [http://www.cipfanetworks.net/fan/library/default\\_view.asp?content\\_ref=7751](http://www.cipfanetworks.net/fan/library/default_view.asp?content_ref=7751)
- The above website reference not only includes the joint presentations delivered during the series but also includes the structure of the draft CIPFA IFRS accounting Code – website reference at: [http://www.cipfa.org.uk/pt/cipfalasaac/ifrs\\_structure.cfm](http://www.cipfa.org.uk/pt/cipfalasaac/ifrs_structure.cfm)
- And the latest position statement on the applicability of IFRS's to local authorities – website reference at: [http://www.cipfa.org.uk/pt/cipfalasaac/ifrs\\_reports.cfm](http://www.cipfa.org.uk/pt/cipfalasaac/ifrs_reports.cfm)
- To date, certain chapters of the draft CIPFA IFRS Code have been published and these include; leasing, impairments, intangible assets, revenue expenditure financed from capital resources and plant property and equipment. Further chapters will be added in due course and the full draft should be available by summer 2009.
- 1.7 Although formal consultation on the draft CIPFA IFRS Accounting code will commence in the summer of 2009, CIPFA would be very pleased to hear your views on the accounting issues arising from the IFRS transition as soon as you are able to do so. If practitioners do have such views or they have any comments on the implications of the draft CIPFA IFRS Code could they please contact [ifrscode@cipfa.org](mailto:ifrscode@cipfa.org). Special mention must be made of the IFRS based PFI changes which will be introduced in 2009/2010, one year earlier than full IFRS. Full details of these are given in the CIPFA SORP 2009 ITC Appendix E – website reference at: <http://www.cipfa.org.uk/pt/consultations.cfm>. PFI implementation in 2009/2010 is subject to CIPFA/LASAAC approval in March 2009 and further considerations of the Accounting Standards Board (ASB).
- 1.8 CIPFA Policy and Technical Department are also in the process of examining alternative formats for the IFRS accounts (comprehensive income statement, statement of financial position and statement of equity) and a presentation included as part of the above IFRS suite of presentations does cover some of the most recent proposals. A working group of authorities will further consider these formats in the first quarter of 2009 and the FAN will include them in its February/March 2009 series on SORP 2008.

## 2. IFRS TIMETABLE AND KEY DRIVERS

2.1 In terms of the local authority IFRS implementation timetable the following is relevant:

**Table 1: IFRS Implementation Timetable for Local Government**



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### Key Drivers for IFRS Implementation

CIPFA has published LAAP bulletin 80 (which can be downloaded from [http://www.cipfa.org.uk/pt/pt\\_details\\_l.cfm?news\\_id=59848](http://www.cipfa.org.uk/pt/pt_details_l.cfm?news_id=59848)) - this contains a high level IFRS implementation timetable for local authorities.

1. Develop an IFRS Implementation Action Plan and identify an IFRS implementation team.
2. Start detailed preparations for adoption of IFRS based PFI accounting in 2009-2010.
3. Ensure that supporting documentation is available for considering accounting treatments under IFRS e.g. leasing and PFI documentation.
4. Identify key focus areas and commence work on the 1<sup>st</sup> of April 2009 transition balance sheet.
5. Ensure that arrangements are in place to get IFRS compliant valuations.

## 3. THEME A – WHAT ARE THE CAPITAL ASSET RECOGNITION AND MEASUREMENT ISSUES UNDER IFRS AND HOW MIGHT THEY BE TACKLED AND BY WHEN?

### 3.1 Leasing

- 3.1.1 In the first instance, authorities will need to understand what type of leases they now have and what level of payments they make on these leases. Are there some leases that are embedded in other legal agreements? These will have to be identified and addressed as well as the more obvious leasing arrangements. If an authority pays for using someone else's asset is there scope for such an arrangement to be counted as a lease or not? There will be a need to search for the appropriate documentation for the leases that an authority has and it is precisely this type of information gathering that has taken up so much time in the National Health Service in terms of addressing the IFRS leasing analysis. Authorities should be instigating such a lease gathering information process right now. It may be appropriate to conduct an examination of the suite of regular payments that an authority makes for asset use. It will not only be a question of the assets that you pay a third party to lease but what about those assets that your authority itself leases out to third parties? Is your estates section geared up to provide this lease information? Should it be made aware of the IFRS issues that are just around the corner? In terms of future leasing approaches it would be useful to brief your procurement section about the IFRS agenda so they can obtain the best leasing solutions for your authority.
- 3.1.2 In terms of IAS 17 there are a number of tests that should be applied to determine whether a lease will be a finance lease or an operating lease. An authority will need to apply these tests to the lease agreements that it has with third parties and it will need to nominate a team to actually carry out this exercise. In terms of drawing up such an approach it would be useful to run it past your external auditors in order to try to get their buy into it. Experiences from the private sector indicate that more leases will come back on to the balance sheet and this will have implications both for the liabilities of the authority and for the calculation of MRP as well on these "returning assets." Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. These are not always conclusive, the assessment requires judgement against the lease classification indicators set out in IAS 17 although the previous 90% test under SSAP 21 no longer applies. If it is clear from lease classification tests that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, if the lease transfers ownership of the asset for a variable payment equal to its fair value, the lessee does not have substantially all risks and rewards incidental to ownership. Lease classification should be performed at the inception of the lease and this will require authorities to form judgements based on circumstances that would have existed at the time the lease was taken out (rather than taking hindsight on such matters as asset lives into account).
- 3.1.3 Some examples of a finance lease classification are given below but they are by no means exhaustive:
- The lease transfers ownership of the asset to the lessee by the end of the lease term.
  - The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised.
  - The lease term is for the major part of the economic life of the asset.
  - The present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
  - The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Paragraphs 10 and 11 of IAS 17 draw out the further key factors that will determine whether a lease will be classified as a finance lease or not. Practitioners should consult those paragraphs for further guidance.

- 3.1.4 A major difference to UK GAAP is the treatment of a lease for land and buildings. IAS 17 requires that the lease be split between the two components and dealt with separately. The lease of the land will normally be treated as an operating lease. The lease for the building needs to be looked at to determine if it is operating or finance in nature. This latter approach will need to have the informed input of valuers to ensure that proper splits between land and buildings will be obtained. RICS Paper no 9 considers differing approaches as to how to split buildings and land elements from a leasing arrangement. Accountants and valuers will need to address the main messages from this paper as we move forward into the IFRS accounting domain.
- 3.1.5 If an authority is a lessee or a lessor the re-classification of leases could impact upon the General Fund/Council Fund. This is because under the retrospective approach, when old transactions under UK GAAP are replaced with new IFRS based transactions then there could be a difference between the two types of transactions which will need to be recorded somewhere. Will CLG/devolved administrations be able to supply regulations to mitigate such effects on local authority funds? If an operating lease becomes a finance lease then an asset and a liability will need to be recorded in the authority's balance sheet at the inception of the lease. The liability will need to be counted against an authority's authorised borrowing limit for Prudential Code indicators and the MRP on the asset will also need to be calculated in a way of the authority's choosing.
- 3.1.6 In terms of the calculation of MRP there is some leeway in these arrangements. If an authority brings an asset/liability onto its balance sheet it will need to have a principal element to reduce the liability whereas previously it would have borne an operational lease charge in its revenue account. Please see the new MRP guidance regulations at: <http://www.local.communities.gov.uk/finance/capital/statguidmrp.pdf> The effect of the MRP guidance here is to try to ensure that the combined impact of the finance charge and MRP for finance leases (and on-balance sheet PFI schemes) is equal to the rental (or service charge payable) for the year. This will ensure that, if the impending move to IFRS in local government has the effect of bringing more leases (and PFI schemes) on balance sheet, there will be a neutral effect on the charge to the General Fund.
- 3.1.7 Authorities in the past will have had to pay an operational lease payment which would have been charged to revenue now they will have to charge a principal element to the liability and an interest element to the General Fund. There is a potential for an imbalance here in the charging process. However as an asset has now come on balance sheet then an MRP charge will need to be made. Under the new MRP regulations an authority will be able to choose an option whereby the MRP charge can be equal to the principal element of the liability and therefore the effect on the revenue account of bringing a finance lease back on the balance sheet should be neutral. An authority will have to make a conscious decision to adopt such an approach and will need to inform its members through its MRP reporting mechanism that it is adopting a policy regarding any leases/PFI that come on the balance sheet, that any related MRP will be equal to the amount of principal repayment. Whilst at this stage authorities won't necessarily know the amount of MRP transfer required pending finalisation of PFI accounting, it is suggested that they establish the principle before the year end (31st March 2009) with members and that they set aside MRP in such a way as to ensure that there are no General Fund implications of the move to IFRS based PFI accounting in 2009-2010.
- 3.1.8 An authority will need to analyse its outstanding leases to understand the key elements of the lease agreements and obtain the relevant supporting documentation. There will then also need to be a risk assessment of those leases requiring detailed consideration of materiality and nature of the lease in contrast to those leases that will clearly still remain unchanged. There will also be a need to identify those property transactions including peppercorn rentals which will require further consideration and the fair value of the leases at their inception will need to be determined with help from valuers. In both the PFI and leasing spheres, the role of the valuer will be critical to the success of the IFRS transition and it is important that authorities start building links with their estates departments and valuers as soon as possible. Training may well be required based on RICS paper number 9 covering the split of land and buildings within lease arrangements and also RICS paper no 10 covering fair value valuation techniques.

## 3.2 PFI

3.2.1 Although in a numerical sense, the PFI changes will affect fewer authorities the amounts are still very significant in financial terms. As at March 2008, the total capital value of all PFI schemes was circa £58.6bn (circa £38.2bn of these, (56%) were off balance sheet). Many of the PFI issues are akin to the issues encountered when an operational lease is re-classified as a finance lease. The latter is especially the case as it relates to the MRP elements and the recognition of a PFI liability as part of an authority's authorised limit for prudential indicator purposes. As for leasing, the main difficulties concerning PFI revolve around getting the appropriate documentation ready to do an analysis under IFRIC 12 test conditions of who ultimately controls the use of the PFI asset. Is there a copy of the PFI agreement? Who has the financial model? Has that model been varied and by whom? What have been the past PFI transactions and where have they been recorded? Who undertook the initial PFI assessment? Were there any capital contributions to the scheme? Have there been any accounting entries which account for the reversion of the asset to the authority at a future date?

All this information will need to be gathered and utilised in the decision as to whether any PFI schemes will come onto the local authority balance sheet. This normally requires specialist input to make this judgement. It is evident that, based on experience from the health sector, it is highly likely that in the great majority of cases PFI schemes will come on to the balance sheet.

3.2.2 SORP 2009 ITC Appendix E gives CIPFA guidance on how the PFI schemes will need to be addressed in 2009/2010, one year earlier than the move to full IFRS in local government. This is because the Whole of Government Accounts (WGA) will be prepared on an IFRS basis in 2009/2010 and local authorities in PFI terms will need to be in step with the WGA IFRS agenda. There may be some issues around this process because the Accounting Standards Board is being asked to recognise an IFRS based PFI accounting process as part of a non IFRS SORP which is a bit unusual. This approach also assumes that authorities continue to use UK GAAP (FRS15 and SSAP 21) for recognition of assets / liabilities once the on / off balance sheet treatment has been determined on IFRS principles. This may result in further restatements in 2010/2011 if full IFRS is not applied in 2009/2010. In terms of PFI, the opening balance sheet for PFI changes will be at the 1st of April 2008 to adjust comparatives and this will need to be taken into account by practitioners as well. The IFRIC 12 tests apply where:

- (a) The local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and where
- (b) The local authority controls - through ownership, beneficial entitlement or otherwise - the significant residual interest in the property at the end of the term of the arrangement.

Where the property is used for its entire life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the authority controls or regulates the services as described in (a) above. It must be remembered that this Appendix E of the SORP 2009 ITC is still out to consultation and is certainly not a final position yet. The IFRIC 12 decision mechanism focuses upon the treatment of infrastructure assets but there are other decision mechanisms emanating from the treatment of PFI in the health service that may well involve utilising IAS 17 and IFRIC 4 (embedded leases) or IAS 16 plant property and equipment. There may need to be some further work required in the PFI area to consider non-infrastructure matters or where accounting treatment is not clear from application of IFRIC 12 tests.

3.2.3 The complex nature of PFI schemes means that considerable accounting work may be required to split out service elements from capital payments and finance costs once balance sheet recognition has been determined. Other considerations identified by delegates included the need for authorities to have a detailed understanding of the refurbishment elements, capital new build, lifecycle replacements and the make up of any service charge elements which were for non capital items and hit the revenue account directly. In terms of the MRP elements for any PFI scheme coming back on to the balance sheet these will need to be addressed by members in January/February 2009 for 2009/2010

budgetary purposes (See paragraph 3.16). The timing is critical, this will be one year earlier than for finance leases because PFI considerations will need to go live for 2009/2010. A useful way of examining the general fund effects of bringing a PFI onto the balance sheet can be found in the table below.

**Table 2: PFI Unitary Charge Vs New PFI Arrangements**

<b>PFI Unitary Charge – Previous Arrangements</b>	<b>Charged to:</b>
Principal	} General Fund as one amount
Interest	
Service Charge	
<b>PFI – New Arrangements</b>	<b>Charged to:</b>
Interest	General Fund
Service Charge	General Fund
Principal	Balance Sheet Liability
MRP (Refer to MRP Regulations)	General Fund (Amount equal to Principal )

3.2.4 There is a need to identify timing differences with finance costs (interest) being front end loaded in this process and any consequent effects on an authority's net cost of services need to be determined. In terms of the PFI and leasing agenda there will need to be a very high degree of joint working between the authority's capital team, estates, legal and other service accountants to ensure that those particular capital elements are properly addressed. There may be a significant amount of work involved in untangling the effects of both leases and PFI. There could also be potential impacts on both budgets for 2009/2010 and the final accounts. The accounting for PFI grants was addressed in BVACOP 2008.

3.2.5 In certain areas there are a number of shared PFI schemes where several authorities have come together in a PFI partnership. Whilst it may be clear that overall the public sector has control it may not be clear as to how this should be accounted for. It would not seem equitable for one authority to record this PFI solely on its own balance sheet and it may be the case that there would need to be some sort of process for allocating such a shared PFI scheme on to several authority balance sheets on a true and fair basis. This may involve consideration of joint control to assess whether participating bodies recognise their share of assets and liabilities. Valuers will probably need to be in a position to advise on the split between finance and principal on old PFI schemes. It was noted that further clarification is required on specific schemes like LIFT, which may, in some circumstances, fall under IFRIC 4 and IAS 17. This is an area where advice should be sought from CIPFA Policy and Technical Department.

### 3.3 Other Capital Asset Considerations

- 3.3.1 Delegates naturally focussed on the main areas of leasing and PFI during the workshop sessions but there were other concerns relating directly to the capital asset agenda that were also discussed. The fixed asset agenda is covered by a number of IFRSs and IASs and in terms of fixed assets, IAS 16 covering plant property and equipment is a key consideration. CIPFA is expected shortly to issue a draft IFRS Code chapter in this area however authorities were concerned that property would be chiefly valued at fair value with “valuations being obtained with sufficient regularity to ensure fair value are kept up to date.” How might this coincide with the present valuation cycle? Would it mean that valuers would need to be used much more frequently? Would this drive authorities to consider annual revaluations of assets especially when economic conditions are volatile? All these issues exercised the minds of delegates and will require greater clarity in terms of guidance on the correct approach.
- 3.3.2 There were also concerns about the level to which any component accounting might need to be taken under capital accounting under IFRS. How does one define a significant component of a capital asset? During the delegate discussions it was felt that a significant component should have a materially different economic life to the principal asset and could possibly comprise not less than 10% of the principal asset’s value. Will further guidance on component accounting be required or indeed be forthcoming from CIPFA? Will levels of component materiality need to be agreed with external auditors in advance? Probably yes. The role of the valuer in component accounting should also not be underestimated and authorities should now be aware that valuers’ time in the next 18 months will be at a premium and they should act accordingly. For specialist properties where market value cannot be determined an authority should use depreciated replacement cost but CIPFA will need to make clear in which circumstances such an approach will be applicable. RICS Paper 10 referred to in the 2008 SORP sets out the principles to be followed in performing DRC valuations. Delegates considered that clarification is required and specific guidance will need to be given by CIPFA on how social housing will be valued although it is unlikely that there will be a departure from the existing valuation base. The calculation of depreciation will be performed on a similar basis as before although authorities will need to estimate a current value for the residual value included within the depreciation calculation. This will be in addition to reviewing the useful life at year end and recording material components of the asset separately.
- 3.3.3 Assets should be classified as held for sale (under IFRS 5) if they meet certain conditions including the following:
- a non-current asset must be available for immediate sale in its present condition,
  - its sale must be highly probable, and
  - it must be genuinely sold, not abandoned.

Assets held for sale should be measured at the lower of carrying amount (book value) and fair value less costs to sell (net selling price). They are presented separately on the face of the balance sheet. Once an asset is so classified no depreciation will be charged on it. Another important classification of assets is that of investment properties. CIPFA will shortly publish its draft IFRS Code chapter on investment assets. Definitions of investment properties in IAS 40 include:

- Land held for long-term capital appreciation.
- Land held for an undetermined future use.
- A building owned by the entity and leased out under one or more operating leases.
- A building that is vacant but is held to be leased out under one or more operating leases.

Investment properties will require a detailed review of the reasons why the property is held; although IAS 40 permits either a fair value or a cost approach it is likely that the CIPFA draft IFRS Code chapter will require an annual fair value valuation with any movements charged directly to an authority’s revenue account and we would expect these to be

reversed out through the SMGFB. The HM Treasury IFReM has already gone down the fair value route so it is highly likely that the CIPFA IFRS Code will do the same. Investment property is already at market value in the current SORP.

Please visit the Finance Advisory Network (FAN) website to find out more about FAN events, publications, briefing notes, rough guides and other useful documentation [www.cipfanetworks.net/fan](http://www.cipfanetworks.net/fan).

- 3.3.4 As well as considering leased assets the draft CIPFA IFRS code presently considers the treatment of intangible assets (IAS 38), Impairments of assets (IAS 36) and accounting for revenue expenditure funded from capital resources. The latter represents a particular position in local government which is not reflected either in UK GAAP or IFRS. IFRS covers accounting principles which are then subject to statutory override this paper does not cover this issue other than where indicated for MRP changes. Certain expenditure made by local authorities is deemed to be of a capital nature because of statute and cannot be counted as expenditure chargeable to the General Fund/Council Fund. More specifically, legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the balance sheet as a fixed asset. The proposal in the draft CIPFA IFRS Code is for this expenditure to be credited to the General Fund Balance and debited to the CAA which should ensure that its effects are negated for Council tax purposes.
- 3.3.5 Delegates did not feel that the issue of intangible assets under the proposed new IFRS regime would be particularly critical. What were counted as intangible assets under the old UK GAAP regime will continue to be counted as intangible assets under IFRS. There may be scope for authorities to go back into the past to see if any expenditure could be counted as development expenditure and would meet the IAS 38 definitions of internally generated intangible assets. This would mean that it may be put on balance sheet rather than counted as revenue expenditure but it was felt that other elements of the IFRS capital agenda like leasing and PFI were priority areas. The issue of impairment of assets under IAS 36 was also considered by the draft CIPFA IFRS Code. The main changes here revolved around impairments due to the consumption of economic benefits not being charged immediately to revenue (there would be a first call on any credit balance in the revaluation reserve relating to the impaired asset) in terms of the reversal of previous impairments under UK GAAP these would be based upon the mirror reversal of the conditions that caused the initial impairment whilst under IFRS, IAS 36 states that the indications of the potential decrease of an impairment loss will mainly mirror (but are not limited to) the indications of a potential impairment loss. The focus for authorities would be to ensure that the impairment position at the 31<sup>st</sup> of March 2009 would reflect the reality of the new IFRS requirements.

## 4. THEME B – WHAT MIGHT BE THE ISSUES AROUND PRESENTATION OF FINANCIAL STATEMENTS UNDER IFRS AND HOW MIGHT THEY BE RESOLVED AND BY WHEN?

- 4.1 Delegates were very keen to discuss the type of templates that authorities would need to use under IFRS. These related to Comprehensive Income (Income and Expenditure), Financial Position (Balance sheet), Cash Flow and the Statement of Equity. Delegates requested that draft formats of these statements need to be made available quickly to ensure that authorities can carry out mapping exercises plotting elements from the old GAAP based statements to the new IFRS based formats. A presentation covering the latest position on the new draft IFRS statement formats for local government was included in the suite of IFRS presentations during this series. It is noted that CIPFA is working with a number of authorities to look at different ways of addressing these IFRS based statements. Any new IFRS accounts formats will need to be communicated beyond the corporate finance section of a local authority to service accountants as well. Any group accounts issues involving subsidiaries will also need to be considered. Subsidiaries may not necessarily account on an IFRS basis and guidance will be needed as to what adjustments will need to be made to subsidiary accounts to ensure they are compatible on an IFRS basis within the local authority group. The latter should cover material items only. Those authorities undergoing re-organisation will need to be particularly careful that financial records which will form the basis of “new” authorities’ accounts will be timely and complete to ensure those “new” authorities can commence their own transition journey to IFRS.
- 4.2 There was a particular issue with the terminology of IFRS and how it differs from UK GAAP. Some delegates suggested that under the transition to IFRS, the notes to each authority’s accounts could contain a glossary of IFRS terms matched to their nearest UK GAAP counterparts as appropriate.
- 4.3 In terms of any new IFRS statement formats, auditors will need to be aware of them fairly early on in the financial reporting process. CIPFA is producing guidance notes to the draft IFRS Code which will contain worked examples but delegates were also of the opinion that lessons could be passed on to local government from the Health Service transition to IFRS and also from international experience of the New Zealand and Australian transitions. Lessons from these transitions could also be learned and applied in the present local government transition. The move to IFRS may impact or influence the policy approaches of local authorities and it would be wise for finance directors to start briefing their audit committees and important member groupings on the implications of the authority moving towards IFRS.
- 4.4 The Group accounts approaches under IFRS are pertinent here. The definition of associates under IAS 28 is based on the power to exercise significant influence irrespective of whether it is exercised or not. Authorities will need to review their relationships with subsidiaries, associates and joint ventures in advance of IFRS coming into full effect during 2010/2011. Will they need to include more associates within their group accounts or will they choose to simplify some of these relationships?
- 4.5 The nature of any IFRS balance sheets will be greatly influenced by an authority’s ability to engage effectively with valuers and this will have an undoubted crucial effect on the quality of IFRS statements as far as the transition is concerned. The transition period to IFRS will prove particularly challenging as authorities will have to operate in both a UK GAAP and an IFRS mindset. In terms of IFRS statements between the 1st of April 2009 (initial IFRS transition balance sheet) and the 31st of March 2011 (the IFRS reporting date for local government) the following IFRS statements will need to be produced:
- Three statements of financial position (balance sheet).
  - Two statements of comprehensive income.
  - Two statements of cash flows.
  - Two statements of changes in equity.
  - Related notes, including comparative information.

In addition to the above IFRS based statements an authority will probably need to reconcile how it has moved from UK GAAP to IFRS on specific dates over the IFRS transition period as measured by changes in equity, comprehensive

income, net operating costs and cash flow. CIPFA is in the process of issuing an IFRS Code draft chapter on these transition arrangements. These reconciliations should give sufficient detail for accounts users to understand the material adjustments to the balance sheet and income statement resulting from an authority moving from UK GAAP to IFRS. These reconciliations will need to be explained to the key members of the authority and also to the users of the authority's accounts as defined in the Back to Basics Review of 2008.

- 4.6 Many delegates appreciated the importance of the opening IFRS balance sheet on the 1st of April 2009 reflecting the authority's IFRS position as at the close of the 2008-2009 financial year and at the start of the IFRS transition process. Authorities were unsure as to when this balance sheet needs to be produced by and whether it would be audited or not. In terms of the IFRS transition in the Health Service their IFRS transition balance sheet had to be completed by the end of December 2008 and was reviewed by external auditors by the end of April 2009. Delegates thought it would be prudent to produce an IFRS transition balance sheet by the end of 2009 at the latest but were unsure as to whether it needed to be published or not. The CIPFA FAN view expressed during the workshops was that by the beginning of autumn 2009 authorities should be attempting a first stab at their IFRS transitional balance sheets although no formal guidance on when they might need to be produced has been forthcoming as yet. It is noted that the timing of the preparation of transition balance sheets will be closely linked to the publication of the CIPFA IFRS based Code.

It must be remembered that as part of the new CAA arrangements commencing on the 1st of April 2009, the degree to which authorities (and partnerships) manage their finances will be under external audit scrutiny. It would seem inconceivable that the degree of an authority's preparations for the introduction of IFRS or the progress that it has made in preparing its transition IFRS balance sheet would be excluded from any such scrutiny. Authorities will need to be aware that the level of work they have undertaken in the IFRS preparation arena will affect the assessment of the way they manage their finances.

- 4.7 Authorities will need to be prepared to explain their accounts much more to their stakeholders under IFRS. There will need to be increased disclosures on estimates and judgements that have material impact on an authority's accounts. In the private sector transition the need to explain the basis of estimates used in the accounts and particular judgements on accounting approaches contributed greatly to the increase in volume of private sector accounts. Authorities will need to be sure that the basis of any such estimates and judgements is agreed with their external auditors.
- 4.8 Prior year adjustments may also be more frequent in the future as these will now required for material errors rather than the higher fundamental error test currently included in UK GAAP under FRS 3.
- 4.9 Segmental reporting under IFRS 8 is also an issue which is currently being address by CIPFA. Under IFRS, business segments are identified on the same basis that is used for internal reporting. Under local government accounting we have BVACOP and it may be the case that some form of revised BVACOP might still set the standard for reporting business segments. Under IFRS 8 there are specific definitions of when a business segment needs to be separately reported but it is unlikely that these will be directly transferable into the local authority IFRS context. CIPFA is still examining the implications of IFRS 8 on local authority accounts and will shortly proffer a final position on this matter.

## 5. THEME C – WHICH AREAS OF AN AUTHORITY’S BUDGET MIGHT REQUIRE MITIGATION REGULATIONS PROTECTION TO ENSURE THAT ANY UNFORESEEN IFRS DRIVEN ELEMENTS DO NOT IMPACT UNWITTINGLY ON THE GENERAL FUND?

- 5.1 This is a crucial area for local authority practitioners to consider because it could have a direct effect on the General Fund or Council Fund balance. Any re-classification of leases for both lessees and lessors could have such implications. When a PFI or finance lease comes on balance sheet then MRP options can be chosen to try to neutralise the effects of such actions on the General Fund or Council Fund. However will this always be the case? If an asset and liability come on balance sheet will the interest charges on the liability exactly match the interest element that was in the initial unitary charge or operational lease payment? Authorities will need to consider these issues very seriously. Any delay in the issue of the final CIPFA IFRS Code could have an impact on the time available to assess potential effects on the General Fund or Council Fund of any moves to IFRS.
- 5.2 The accrual of employee benefits under IAS 19 is also a crucial matter. The definition of these benefits does not just cover holiday pay but also includes time off in lieu and flexi-time. IAS 19 has a particularly wide definition of what constitutes an employee benefit and authorities should familiarise themselves with these approaches. In terms of these accruals it was felt that a stratified sampling approach could be undertaken that would provide an average level of accrued benefits per class of employee and this could be extrapolated to reflect the position for the whole workforce. The following practical issues need to be addressed:
- This is a potentially simple calculation if an authority possesses the data.
  - The pattern of untaken holidays/benefits may vary between years depending on the timing of Easter.
  - Many authorities do not have comprehensive holiday pay records so they will need to:
    - establish an estimation basis and agree it with their external auditor.
    - consider whether any future HR systems changes are required to simplify future estimations.

Delegates were convinced that work on the estimation of such accruals would need to commence in time for it to feed into the process for the transition balance sheet as at the 1st of April 2009. This would mean that the accrual position for 2008-2009 would be estimated and would affect the IFRS transition balance sheet. CIPFA does need to alert practitioners that in effect they should be doing this calculation for the financial year end 2008-2009. The accounting entries for this initial accrual within the transition balance sheet might be debit General Fund/Council Fund balance and credit creditors. Ongoing adjustments for these employee benefits might involve marginal changes to his level of accruals and would be probably recorded through the authority’s revenue account. CIPFA might need to advise authorities on the implications of such an approach on the transition balance sheet.

- 5.3 Other elements affecting the General Fund or Council Fund might involve the revaluation of assets through an authority’s revenue account (e.g. investment properties and assets held for sale). Any changes in fixed asset, leasing and PFI accounting will be particularly pertinent here. Local authority budgets for 2010/2011 will need to be prepared on an IFRS basis by January 2010. The director of finance will need to give some form of positive assurance on the level of budgets set under the auspices of IFRS. CLG and the devolved administrations will need to identify any unforeseen General Fund or Council Fund effects of local authorities moving to IFRS. In practical terms there is a window between September 2009 and December 2009 for any mitigation regulations to be laid to ensure that they will impact before authorities embark on the full transition to IFRS. Practitioners need to address these mitigation issues well before that deadline as they have the best on the ground knowledge of these potential effects. They should inform CIPFA if they discover any problem areas requiring such mitigation.

## 6. THEME D – WHAT CHANGES TO FINANCIAL AND NON-FINANCIAL SYSTEMS ARE REQUIRED TO ENSURE AN AUTHORITY MAKES A SUCCESSFUL TRANSITION TO IFRS AND BY WHEN?

6.1 Authorities will need to consider changes to the following systems to ensure they can cope with the moves towards IFRS:

- Financial reporting and budgeting systems.
- Procurement systems.
- HR records.
- Time recording for employees.
- Asset management systems and asset registers.

Financial reporting and budgeting systems will need to incorporate the new IFRS accounting formats and any new descriptions to ensure effective financial reporting and monitoring can be undertaken on a new IFRS basis. Budgetary systems will probably need to be addressed earlier than the financial reporting systems and there is a possibility of new account headings and coding structures needing to be introduced. The timing of such systems changes in terms of the IFRS transition will be crucial. Practitioners argued that this process will largely be driven by any agreed local authority IFRS statement formats emanating from CIPFA and the sooner this can be addressed the better. Asset management systems will not only need to deal with impairments, intangibles and property plant and equipment under the new IFRS rules but post 2010/2011, it is probable that they will also need to cope with revaluing infrastructure assets to current values and this significant change cannot be ignored. Any costs requiring mitigation will need to be systematically identified by authorities and used by CIPFA to lobby the relevant jurisdictions to ensure neutrality in any effects on council tax.

6.2 If authorities are purchasing new computer systems they will need to ensure that they will be IFRS compliant and therefore the procurement section should be fully briefed on the potential IFRS requirements for the authority with finance being closely involved in any such purchase. In terms of purchasing or developing a new HR system this may not be just down to the director of finance but there may also be a need to explain the IFRS implications of HR to non finance managers of the authority so they can fully appreciate the issues. Will an authority match its budget and financial coding to future segmentation requirements when they are known? This would seem to be a logical approach to take. Procurement systems or staff will need to be aware of the new IFRS accounting arrangements for leases/PFI and property, plant and equipment. The responsibility for raising awareness within these areas will probably rest with the authority's corporate finance section. Procurement section staff will need training in the IFRS implications of the above IFRS based activities. The splitting of land and property for new leases under IFRS will be a real challenge for procurement staff to record in lease agreements. In terms of the asset registers there will be a similar issue in recording the future split between land and buildings values for leases and whether they are operational or finance leases for final accounts and budgetary purposes.

## 7. THEME E – HOW MIGHT AN AUTHORITY PLAN FOR A SUCCESSFUL IMPLEMENTATION OF IFRS AND WHAT LEVEL AND QUALITY OF RESOURCES MIGHT IT REQUIRE TO ACHIEVE SUCH AN IMPLEMENTATION?

7.1 Delegates were of the firm view that any IFRS project implementation team should be as broad based as possible encompassing representatives from:

- Legal and property services.
- Internal audit.
- Human resources.
- Key finance members.
- Corporate and service accountants.
- ITC.
- Training section (on IFRS changes focused within and externally to the authority).
- Communications media (communicating the IFRS change agenda within and externally to the authority).
- Designated IFRS project manager.

The implementation team should utilise a proven project management framework which would identify a formal action plan encompassing key project implementation milestones within it. The key IFRS drivers for change would emanate from a business impact analysis of how each IFRS area would impact on the authority in terms of systems, structures, people, internal or external financial reporting and service reporting requirements. Consultants could be used to implement the IFRS agenda in discrete challenging areas like PFI and leasing although wholesale externalisation of the IFRS implementation process would not be recommended by practitioners unless there was an effective transfer of knowledge between finance and any external consultants. The authority should remain in control of the IFRS implementation process and needs to be able to effectively explain what has happened in the current IFRS implementation process to its external auditors.

7.2 The potential complexity of any IFRS project implementation will be in direct proportion to the IFRS challenges that an authority will face. These are set out very well in the traffic light system diagram which is reproduced below.

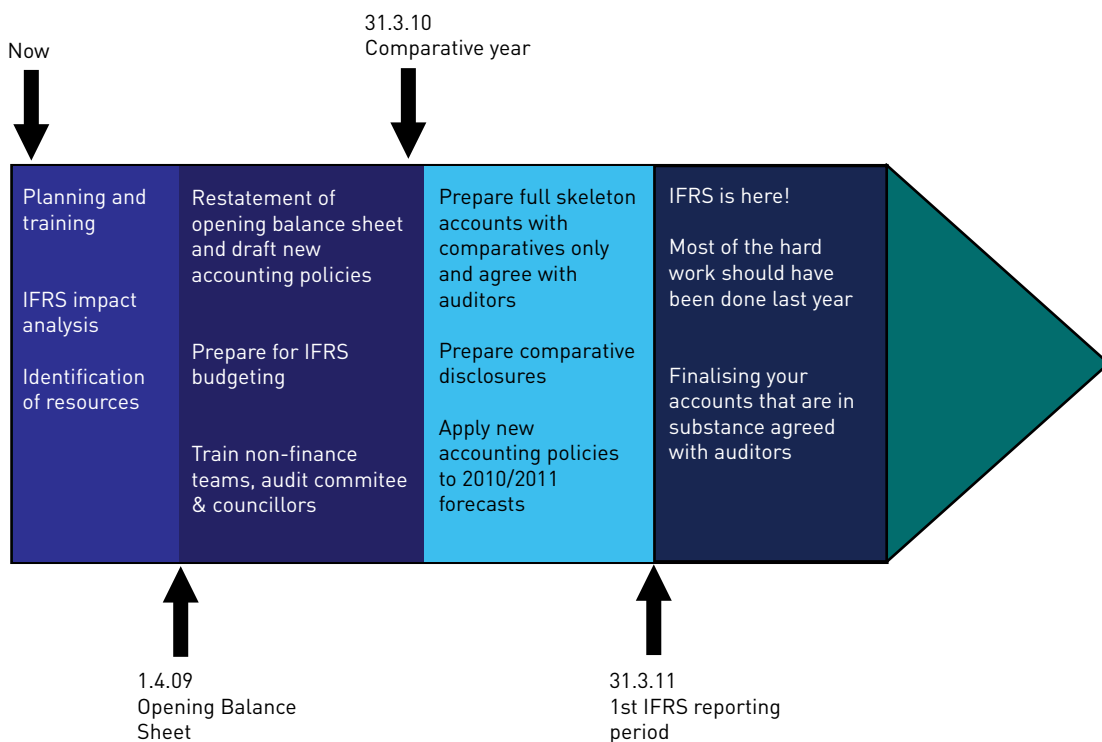
**Table 3: IFRS Priorities for Authorities**

Urgent Priority	Medium Priority	Lower Priority
PFI	Format of accounts	Stocks (inventory)
Leases	Government grants	Post balance sheet events
Fixed assets	Income recognition	Related party disclosures
Investment properties	Accounts disclosures	Provisions
Intangible assets	Impairments	Financial instruments
Employee benefits		
Group accounts		

Smaller authorities with no PFI transactions and few leases and a lower staff base will face smaller technical challenges to implementation but will nevertheless face significant resource challenges to get the job done. Certain PCTs in Health have clubbed together to buy additional staff resources to implement IFRS for each member of the resource purchasing club. This could also be a potential solution for smaller local authorities in that they could share a common IFRS implementation resource. It could be the case that any such extra IFRS resources could backfill on existing work and that the actual IFRS implementation could be performed by an existing member of staff from the resource purchasing club of authorities. CIPFA has published LAAP bulletin 80, a high level IFRS project implementation timetable which can be downloaded from the CIPFA website.

7.3 The key elements of a project plan are contained in the diagram below and can be used by authorities to inform the details of their own plans.

**Diagram 1: Outline Headings for an IFRS Project Implementation Plan**



The degree of complexity of each authority's project plan will vary but it would be useful for authorities to talk to their health counterparts and with clusters of similar authorities to develop a collaborative approach. There will need to be a high level management buy-in to the authority's implementation plan with a business case possibly being prepared to try to gain additional resources to implement the IFRS changes effectively.

## 8. THEME F – HOW MIGHT AN AUTHORITY COMMUNICATE AND EXPLAIN THE EFFECTS OF THE NEW IFRS REGIME TO ITS KEY INTERNAL AND EXTERNAL STAKEHOLDERS AND BY WHEN?

- 8.1 An authority will have to maintain effective IFRS based communications with all key internal and external stakeholders including the media. This will include IFRS familiarisation training at a member or manager level and more detailed IFRS training for corporate and service practitioners. Local media and community groups will need to be regularly updated on the proposed changes and how they will affect an authority's financial reporting. When IFRS accounts are published in 2011 the key differences between them and the previous local authority UK GAAP accounts will need to be identified and explained both formally as part of the IFRS transition process and also in non-technical terms to key non-technical stakeholders. The authority's audit committee and key members will need to be kept fully updated as to the progress and resource needs of the authority's IFRS implementation project as it heads towards full implementation.
- 8.2 In terms of an authority's communication and key contact approaches the following issues are also very important:
- The authority will need to decide the balance of internal vs external expertise in the delivery of the IFRS agenda.
  - Successful IFRS implementation will require successful buy in from all parts of the authority to be effective.
  - The authority needs to develop a Communication plan ensuring that the appropriate IFRS implementation messages are relevant to the appropriate audience.
  - An effective high level impact analysis combined with a business case for additional resources and effective project management should provide assurance that the IFRS implementation process is being well managed.
  - The authority needs to understand what its auditors will be expecting from it in IFRS planning and accounting terms and what the key dates are for preparing any transition accounts and to what degree they will be reviewed or audited. There will be a critical need for a joint approach to this.
  - The authority will need to identify the key internal and external IFRS stakeholders. The audit committee is very important. Outputs from the CIPFA Back to Basics review can also help in the stakeholder identification process.
  - The authority and members will need to be aware of the impact that non compliance with IFRS will have on the authority's reputation and its use of resources assessments. Non-compliance with IFRS could be damaging to the authority as could finding out financial implications of IFRS too late in the process.
  - IFRS is likely to take resources away from other activities – opportunity costs will be involved and proper business cases will need to be presented to key authority decision makers.

## 9. THEME G – WITH WHOM MIGHT YOU WORK WITH IN DIFFERENT PARTS OF THE AUTHORITY AND RELEVANT EXTERNAL BODIES TO ENSURE A SMOOTH TRANSITION TO IFRS?

9.1 The following represents a list of some of the principal actors that an authority may need to work with to some degree at least, to ensure an effective implementation of IFRS. It is not intended to be exhaustive:

- Valuers.
- Estates.
- Legal.
- Procurement.
- Training including members, officers the media and the community.
- Charities.
- CIPFA.
- CLG.
- DCSF.
- PPP (Public Private Partnerships).
- IT and ICT.
- Internal and external audit.
- Group companies.
- Associates and Joint Ventures.
- Joint working organisations (Under LAA and MAA umbrellas).
- HR section.
- Corporate Management Team - senior managers.
- Audit committee.
- HR.
- Finance (all over the council). Service and Corporate.
- RICS (Ensuring that the fair value techniques are familiar to RICS practitioners on the ground).
- Chief accountant groups.
- Auditor groupings
- HMT for IFRS input into WGA.
- Key member political groupings.
- Community groups.
- Local media (press, radio and television).

## 10. SOME ADDITIONAL OBSERVATIONS FROM DELEGATES AND PRACTITIONERS ON IFRS IMPLEMENTATION IN LOCAL GOVERNMENT INCLUDE THE FOLLOWING:

- Will there be a standard mitigating paragraph issued for local government budget papers for the 2010/2011 budgets if any unforeseen IFRS implementation driven consequences hit the General Fund?
- Will component accounting require retrospective application? CIPFA is working with the FRAB to ensure component accounting is applied prospectively from the 1st of April 2010.
- For LGR 2010 will there be any special transition requirements to IFRS for those new councils?
- Fire authorities and police organisations have clauses in their employee contracts relating to injuries sustained in employment. Will they have to accrue for these employee benefits under IAS 19?
- How does an authority's capitalisation policy (for e.g. £10k) feature in or override classification in terms of leases (operating to finance)?
- If employee benefits accruals are introduced earlier than under UK GAAP will CIPFA be in a position to argue that any potential mitigation support can be paid to authorities earlier as well?
- Will there be any specific CIPFA guidance for local authority pensions administering authorities on their potential moves to IFRS accounting?
- What will be the status of any IFRS 1st of April 2009 transition balance sheet? Will it be formally audited in 2009 by external audit? When will it need to be formally published?
- What assumptions will the new use of resources assessment methodology make about the steps an authority needs to have made to get ready to implement IFRS?
- Will CIPFA and RICS produce some joint guidance on fair value valuation processes to inform valuers on the ground?
- Will there be any external audit guidance issued on levels of materiality for estimates purposes in terms of employee benefits and other IFRS estimating processes?
- Will the Audit Commission have specific IFRS audit expectations of authorities? If this is so could authorities get to know of these expectations sooner rather than later?

# SPECIFIC THEMED IFRS IMPLEMENTATION SUMMARY CHECKLISTS TO ASSIST LOCAL AUTHORITIES IN THEIR APPROACHES TO IMPLEMENTING IFRS IN 2010/2011

The following represent themed checklists to assist Authorities in implementing IFRS. They emerged directly from the practitioner workshops during the November/December 2008 CIPFA FAN Grant Thornton joint series.

These issues raised by practitioners highlight where further work may be necessary by the authorities and where further guidance may be helpful.

## **Theme A – What are the capital asset recognition and measurement issues under IFRS and how might they be tackled and by when?**

### *Leases, Capital Assets and Valuation*

- Identify leases to determine their type including those hidden (embedded) in potential contracts.
- Inform Estates Section (including Valuers) to ensure they are aware of IFRS deadlines and requirements in relation to lease recognition. Need for them to consider all leases and potential leases. In terms of classification and valuation.
- Investigate arrangements that might be leases – look at regular payments made by the authority. Direct link here to the consideration of embedded leases.
- Consider IFRS leasing accounting entries and any future potential mitigation requirements relating to these entries once CLG and the devolved administrations agree them.
- Train relevant personnel in terms of leases for example devolved areas – schools teams and procurement officers.
- For leases ensure separation between land and buildings where necessary.
- Set up a process to analyse an authority's leases between finance and operational definitions involving accounting and non-accounting personnel. Decide whether you need external support to address the position of leases under IFRS.
- Understand how component accounting might work in practice for local authorities. Further guidance on this may be required from CIPFA.
- Assess whether current accounting systems will cope with component accounting.
- Obtain advice and guidance on what is defined as significant value in component accounting and also relevant materiality issues.
- Ensure valuation of investment properties on an annual basis.
- Ensure investment properties are classified correctly in accounts.
- Liaise with valuers to ensure they are familiar with the IFRS fair value valuation regime and book them to do the work.
- Verify that plant, property and equipment values on an IFRS basis will correctly feed through to the 1st of April 2009 transition balance sheet.
- Identify intangibles – for example software licences, consider the likelihood that any past expenditure would meet the IAS 38 definitions of an intangible asset. Starting point here is opening intangibles.
- Examine whether any impairments due to the consumption of economic benefits have been charged to revenue when they should have been charged in the first instance to any relevant credit balance in the revaluation reserve for that particular asset.
- Assess whether the reversal of any existing impairments will be more likely under the new IFRS regime than previously.

### *PFI Schemes*

- Identify all PFI schemes in your authority and obtain all the relevant documentation for them. i.e. agreements, financial models and accounting records.
- Apply the IFRIC 12 control tests to determine whether PFI schemes will be on balance sheet or not.
- Separate the capital, finance and service elements of the unitary charge to enable accounting entries to be completed.
- Identify the authority's approach to MRP for assets that are returning to an authority's balance sheet and new build assets as well. Communicate this as part of the MRP policy report to members.
- Investigate and establish the nature of PFI arrangements.
- Decide whether you need to buy in external advice on coping with PFI's and IFRS?

### **Theme B – What might be the issues around presentation of financial statements under IFRS and how might they be resolved and by when?**

- Attempt to rationalise the volume of the accounts to the key important notes.
- Explain the new IFRS approaches to elected members and other key stakeholders.
- Obtain a final definition of the Statement of Local Authority Equity and review its implications.
- Work together with other neighbouring authorities in terms of the transition to IFRS.
- Share project resourcing implications with other authorities.
- Identify the potential members of a project team and get them appointed and working.
- Train staff on the implications of IFRS both finance and service based staff.
- Obtain IFRS accounts formats from CIPFA and map the old formats onto the new IFRS formats.
- Obtain a final view on the CIPFA IFRS approaches to segmental reporting - BVACOP or otherwise.
- Complete an IFRS project plan.
- Examine any IFRS Group accounts issues. Will the nature of any group relationships need to change?
- Will there be a need to review the accounts of subsidiaries that don't prepare accounts on an IFRS basis?
- Work towards preparing the IFRS transition balance sheet by the end of 2009 with subsequent shadow IFRS accounts for 2009/2010 before full IFRS accounts in 2010/2011.
- Liaise with HMT on the local authority requirements for WGA L pack information.
- Identify the IFRS definitions for cash and cash equivalents and how they might differ from UK GAAP for cash flow statements.
- Review disclosure notes for grants and any revised income recognition implications for grants and other local authority income under IFRS.
- Consider any special disclosure requirements for charities under IFRS.
- Seek a detailed IFRS transition timetable from CIPFA akin to the government's trigger points.
- Assess the IFRS driven effects of changes in terminology, coding and descriptions on local authority budgetary and financial systems.

- Agree with Auditors the shell of the IFRS accounts and notes both for the transition balance sheet of the 1st of April 2009 and beyond.
- Brief members on changes and progress towards IFRS implementation.
- Seek a detailed IFRS accounts and notes checklist from CIPFA.
- Look at NHS website for resource ideas and tips on its transition process to IFRS.
- Consider doing an IFRS dry run in 2009/2010 to recognise the accounts and notes that will be required.
- Determine where accrued employee benefits will be recognised in statements. Will it be at service level? – What about recharges (for example support services) implications?
- Determine whether small organisations will be able to produce group information in an IFRS format. Will they need assistance?
- Embedded leases – Will 3rd parties be able and willing to provide the information?
- Will the audit fee go up because audit will be potentially doing more work?
- Interpretation of the IFREM – if authorities do not have guidance notes for the code will they need to refer to the IFREM if there is no other suitable guidance?
- Agree materiality basis of estimates, judgements and accounts – with external auditors.
- Agree revaluation periods with auditors and valuers.
- Scope the nature and magnitude of the IFRS transition and the financial impacts of any retrospective application of IFRS rules.
- Consider the IFRS implications for outsourced areas or services. For example, shared services and partnership arrangements.

### **Theme C – Which areas of an authority’s budget might require mitigation regulations protection to ensure that any unforeseen IFRS driven elements do not impact unwittingly on the General Fund?**

- Analyse how MRP will apply to assets coming onto the balance sheet and report relevant MRP policy to members. For PFI schemes this will be in February or March 2009. MRP policy should aim to ensure a neutral financial impact on the General Fund.
- Estimate the Employee Benefits accrual using a stratified sampling approach to the labour force; agree this approach with your external auditors. Estimate accruals for time off in lieu (Toil), Holidays, Police and Fire Toil is a real issue, for 2008-2009. The complexities of education employee benefits (teachers) will also need to be considered by CIPFA.
- Evaluate the financial implications on the General fund of changing classification of leases and any embedded leases.
- Estimate additional costs of employing valuers for fixed assets etc.
- Evaluate the effects on revenue of accounting for the valuation of investment properties and held for sale assets.
- Determine any extra required resources for IFRS implementation e.g. finance staff.
- Estimate any additional costs of employing specialist consultants to complete IFRS tasks around PFI and leasing etc.

## **Theme D – What changes to financial and non-financial systems are required to ensure an authority makes a successful transition to IFRS and by when?**

- Evaluate the whole impact of IFRS changes on all authority systems.
- Define the impact of IFRS on all returns and forms e.g. RA, RO, WGA, BVACOP – review these as well at later dates.
- Recode accounts (change chart of accounts) in line with IFRS.
- Consider merging management accounts with financial accounts.
- Review procurement practices and systems.
- Adjust financial regulations, standard orders etc.
- Communicate with asset management system suppliers. Will they change their software to accommodate revised valuations etc?
- Review Property Terrier systems and housing repair systems.
- Form a view on materiality after consulting with you external auditor.
- Record infrastructure assets in advance of a future move to current valuation.
- Update the treatment of impairments under IFRS.
- Recognise any segmental reporting changes (when they are known) within the chart of accounts.
- Review revenue and capital coding structures.
- Assess the adequacy or need for asset management systems.
- Ensure IFRS compliance of procurement systems.
- Obtain answers from the treasury in relation to IFRS requirements for WGA for 2009/2010.
- Investigate HR systems and the links with other systems (for example, annual leave and flexitime recording of accruals etc). Link to employee benefits and holiday pay.
- Update project manager skills and systems.
- Review risk management skills and systems.

## **Theme E – How might an authority plan for a successful implementation of IFRS and what level and quality of resources might it require to achieve such an implementation?**

- Make sure the CEO and CMT are onboard.
- Ensure an impact assessment of IFRS implementation is undertaken immediately.
- Flag the need for extra resources now.
- Form an IFRS project team.
- Communicate with senior management.
- Prepare an action plan for implementation.
- Communicate with the Audit Committee to ensure they are aware of the implications and that they support the implementation of IFRS.

- Ensure that ICT, HR, procurement and capital accounting IFRS challenges are addressed.
- Identify priority IFRS areas for your authority.
- Determine staff resources – backfill posts – budget implications for increased salary.
- Identify main IFRS tasks and come up with key milestones, deadlines and project plan.
- Engage with individuals and others outside of finance.
- Agree IFRS implementation approaches with internal and external audit.
- Consult with HR.
- Establish the IFRS areas where internal resources can support the implementation. For complex areas buy specialist external advice, for example, PFI and leases.

**Theme F - How might an authority communicate and explain the effects of the new IFRS regime to its key internal and external stakeholders and by when?**

- Liaise with key members.
- Communicate with press, radio and television to ensure IFRS accounts do not come as a shock.
- Undertake a high level overview to CMT / Cabinet etc explaining IFRS now – detail some of the implications and get sign up to a project team.
- Publicise IFRS implementation timetable widely.
- Utilise the Intranet system detailing IFRS within the council and the council's general website for external users.
- Explain the benefits of IFRS and think of a form of words.
- Present outline reports to cabinet setting out the consequences, resource implications and outlining the timetable for moving to IFRS.
- Explain to external groups and organisations the IFRS requirements which the authority will need to meet.

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