International
Financial
Reporting
Standards

A guide for senior managers and members
June 2010
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.
This summary paper gives an outline of the main messages for members and senior managers to consider in implementing IFRS in their authorities, and sets out the support material the Audit Commission has published.

Authorities need to plan and carry out detailed work to implement International Financial Reporting Standards (IFRS) successfully by the statutory deadline.

Local authorities will prepare their Statements of Accounts under the new IFRS based Code of Practice on Local Authority Accounting from 2010/11. The move to IFRS does not mean wholesale change, but where changes do occur, a significant amount of work is needed to assess the impact on the accounts. Much of that work needs doing now as the 2009/10 accounts will need to be restated to provide the prior year balances in the 2010/11 accounts.

The impact of IFRS will vary from body to body but the most significant changes will be in the following areas:
- PFI;
- leases;
- property, plant and equipment (formerly known as fixed assets);
- employee benefits; and
- disclosure.

IFRS affects all parts of the organisation, as much of the data has to be collected from other departments, for example legal, estates or HR. IFRS is not just a finance issue; corporate direction is essential.
Lessons from experience elsewhere

The timetable for local government transition is a year later than elsewhere in the public sector, so there is an opportunity to learn from others.

Experience from elsewhere shows that, for success, authorities need to:
- develop a detailed project plan including an up-to-date budget and resource plan;
- complete an initial impact assessment and detailed technical risk assessments in the areas they have identified as important for their authority;
- have multi-departmental project teams and, in larger authorities, sub-working groups;
- conduct a skills assessment and carry out a training programme covering both general awareness and detailed technical aspects;
- engage the Audit Committee (or an equivalent) so it is aware of the implications of the transition; and
- engage and keep in regular contact with their external auditor.

Key questions for members and senior officers to ask about IFRS:

- Have we assessed what impact IFRS will have on our authority?
- How much is it going to cost? What is the impact on our budget?
- 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 resources in place? Does the project plan reflect these problem areas?
- What are the risks to delivery and are these 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?
The Audit Commission has published a series of briefing papers to support IFRS transition

Countdown to IFRS draws on a comprehensive survey of the auditors of all local authorities, fire and rescue authorities and police authorities in November 2009. Auditors reported that only one in seven authorities was ‘on track’, and one in five was having serious difficulties. The briefing stresses authorities need to act urgently and provides practical guidance on project management and governance arrangements.

Identifying and accounting for leases sets out some of the key issues and practical examples that authorities should consider as part of their work on the review of lease arrangements. The briefing encourages authorities to put in place a detailed plan to ensure they identify all arrangements that meet the new definition of a lease and to take a risk-based approach.

Accounting for non-current assets looks at the potential issues arising from introducing IFRS for accounting for non-current assets, including property plant and equipment. Reclassification may impact on the valuation basis of the assets. Authorities should therefore undertake this work as early as possible to understand the impact on their financial statements and to engage with valuers if necessary.

Our Members’ Checklist is to help members discuss their IFRS transition plan with relevant officers. The Audit Committee (or its equivalent) needs to be aware of the requirements of IFRS to ensure the transition project is on track.

Earlier papers have also been published covering managing the transition to IFRS (IFRS briefing paper 3), the role of the auditor (IFRS briefing paper 2), and the implications for local authorities (IFRS briefing paper 1).
More information

More briefing papers will be published in the summer and autumn 2010. All our briefing papers and associated documentation on IFRS transition is available in a dedicated section of our website: www.audit-commission.gov.uk/IFRS.
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