

Hampshire Fire and Rescue Authority

Governance Committee

Item 10

22 November 2010

International Financial Reporting Standards Implementation – Project Update

Report of the Treasurer

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1 Summary

- 1.1 This report provides an update to the Governance Committee following the report on 24 March 2010 regarding the required implementation of International Financial Reporting Standards (IFRS) for the financial year 2010/11. It sets out the developments that have taken place in terms of standards and guidance as well as outlining progress made to date with the project.

2 Recommendation

- 2.1 That the Governance Committee support the progress made and note the work still required for the successful implementation of the IFRS Code of Practice.
- 2.2 That a further report on IFRS implementation be considered by the Governance Committee in March 2011.

3 Contextual Information

- 3.1 Following a consultation process, the Code of Practice for 2010/11 was issued by CIPFA/LASAAC in December 2009. This required local government accounting to come fully in line with IFRS accounting for the financial year 2010/11. These changes affect a number of the Authority's business processes and systems, most notably valuation processes for property assets, lease arrangements, some small changes in SAP Asset and changes to accounting adjustments and the presentation of accounts.
- 3.2 As such this change is not simply a finance issue as it has wider implications for the organisation. It encompasses many of the practices of the Authority from procurement to staffing. The project is being co-ordinated from within the County Council's Corporate Finance section but requires buy in and considerable amounts of work from other departments of the County Council and the Fire Authority. Corporate Finance staff have been and continue to work closely with County colleagues especially in Property Services in relation to asset classifications, and in IT Services in relation to SAP Asset.

- 3.3 The Authority is well placed to meet the requirements. Following the Audit Commission's assessment in November 2009 that the Authority was on track with its implementation plan (green traffic light) a further assessment in July 2010 came to the same conclusion.

4 Introduction and background

- 4.1 At this stage the guidance notes which advise accounting professionals on how to implement the Code of Practice for 2010/11 have not yet been released. The normal timescale for these is for publication prior to the end of December. However, transition guidance has been placed on the CIPFA website to assist Authority's in understanding the implications of the transition to IFRS accounting. These do not take the place of the guidance notes as they do not provide practical examples, yet they have proven to assist in certain calculations.

5 Early transition elements

- 5.1 One element of IFRS accounting has been introduced earlier than the overall 2010/11 target in order to reflect the Government's timetable for introducing Whole of Government Accounts. This involved a change to accounting for private finance initiatives (PFIs) and similarly structured service concession arrangements. Fortunately, this did not apply to this Authority.

6 Progress for 2010/11 Statement of Accounts

Statement Format

- 6.1 Changes to the presentation of the accounts have been assessed and are being incorporated within systems in preparation for the process of producing the 2010/11 financial statements. Appendix A sets out the comparison of the existing accounts with the IFRS compliant accounts. The 2008/09 and 2009/10 balance sheets and the main 2009/10 accounts have been restated as far as possible at this stage, including all the adjustments which have been calculated to date. These are included as appendices B-D to this report and also demonstrates the new format of the balance sheet, comprehensive income & expenditure statement and the new statement of movement on reserves.

Notes to the Accounts

- 6.2 Under IFRS the notes to the accounts have changed and become more complex in some areas. Ongoing assessment of these changes is taking place in order to ensure that processes are in place before the end of March 2010/11 to collect the relevant information for completion of new notes. Some of the information for 2009/10 comparable notes has already been collected, other aspects will be adjusted as part of the overall 2009/10 restatement. Prior to the end of 2010/11 it will be important to ensure that the format and presentation of these notes is correct and that they feed appropriately into or from the main statements as required.

Employee Benefits

- 6.3 Surveys of staff across the Authority have been carried out to determine the average level of annual leave and flexi-leave carried forward at the end of March 2009 and March 2010 in order to restate the 2008/09 and 2009/10 accounts. There is a low average level of leave carried forward for staff and is not considered significant enough to warrant an entry into the accounts. However it is likely that the Authority will be required to continue to conduct an annual review of this figure to ensure that it does not reach a material level for at least one more financial year.
- 6.4 As noted previously in reports to the Committee, any accrual in the Balance Sheet for employee benefits is purely an accounting adjustment. As such it would not impact upon the General Fund and will instead be offset by a contribution from an Employee Benefits Adjustment Account.

Grants and Contributions

- 6.5 The Code requires a change to the method of accounting for grants and contributions. Rather than capitalising those grants and contributions received for capital purposes and amortising them over the life of the relevant asset to offset the affects of asset depreciation, instead the income will be recognised in year in the comprehensive income and expenditure statement. Only if the grant or contribution was made with conditions attached to it that have not yet been met or which make it likely that the grant or contribution will need to be repaid, will the balance remain on the balance sheet as a liability.
- 6.6 Work has been undertaken to determine whether any of the grants and contributions currently held on the balance sheet have such conditions attached. None have been identified and therefore the restatement of the comprehensive income and expenditure account and balance sheet has been prepared on the basis that no deferred grants and contributions will be retained on the balance sheet as liabilities.

Leases

- 6.7 Significant work has been carried out to identify all the existing lease arrangements of the Authority. These have been assessed against the indicative criteria included in the Code to determine whether they are operating or finance leases. The overarching principle against which to assess the leases is where the risks and rewards of the assets lie, regardless of the legal arrangements of a contract.
- 6.8 Much work has also been undertaken to assess leases in terms of the criteria for finance leases. It has become apparent that the front line appliances will have to be accounted for as finance leases rather than as operating leases. Support vehicles will continue as operating leases. Initial discussions with the District Auditor would lead to the conclusion that this analysis is the correct accounting treatment. Fareham Fire Station is the only property that may have to be accounted for as a finance lease and work is progressing to establish the correct accounting treatment.

- 6.9 Consideration has been given to the contracts of the Authority to assess whether they might contain embedded leases. As yet there have been no embedded leases identified.

Investment property and assets held for sale

- 6.10 Work has been carried out in collaboration between Hampshire County Council Property Services and the County Treasurer's Corporate Finance staff to assess whether any of the assets held at the end of 2008/09 and 2009/10 should be properly classified as Investment Property or Assets Held for Sale. A number of Assets Held for Sale have been identified and the necessary adjustments to the accounts have been made in the restated 2008/09 and 2009/10 balance sheets.

Systems

- 6.11 Some small system changes have been identified for SAP Asset and discussions have taken place with Corporate Solutions and SAP representatives on how to implement these. Testing and developments in this area will be taking place shortly. It does not appear that SAP will be able to carry out or automate the necessary calculations for the transactions to deal with finance leases. It is expected that this work will be completed manually.

7 Future work

- 7.1 Much of the work to restate the 2008/09 and 2009/10 balance sheets has now been completed with a small number of calculations still required. These are mainly to ensure that Fareham Fire Station is accounted for correctly. This will need to be ready for review by the external auditors by the end of December 2010 and inclusion in the 2010/11 accounts.
- 7.2 Overall this ongoing work will have to be completed in accordance with the project plan, drawing on external advice where necessary and keeping the external auditor informed.

8 Background papers

- 8.1 The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

[List here details of the documents and provide website links to them where possible, or put "None"]

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.