

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

12 OCTOBER 2009

1. **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – PROJECT PLAN**

Report of the Treasurer.

RECOMMENDED

THAT the Audit Committee note the proposed project plan for the introduction of IFRS.

2. **PURPOSE OF REPORT**

This report is submitted to inform the Audit Committee of the project plan for the implementation of the requirements of IFRS.

3. **BACKGROUND**

3.1 Local Authorities currently prepare their financial statements under UK Generally Accepted Accounting Principals (GAAP). For the financial year 2010/11 and onwards, financial statements will be required to be presented under the CIPFA (Chartered Institute of Public Finance and Accountancy) IFRS based Code of Practice.

3.2 Appendix A provides an assessment of the impact IFRS will have on the Authority. The main areas are as follows:

3.2.1 ***Property, Plant and Equipment (Fixed Assets)***

IFRS requires fixed assets to be held at 'fair value' as opposed to the existing requirement of 'current value'. Fair value is defined as the amount for which an asset could be exchanged between willing parties in an arms length transaction.

The Authority will also need to introduce a component based approach for assets. This means that individual components of an overall asset may need to be accounted for differently,

for example, if a building has lifts and a boiler system, these may have a significantly different economic life to the rest of the building. These components would need to be depreciated separately from the rest of the building and the asset register would need to record separately those significant parts of an asset.

3.2.2 Employee Benefits

Under IFRS the Authority is required to recognise the cost of providing employee benefits in the period in which the benefit is earned by the employee, rather than when it is payable. As a result, the Authority will need to account for the cost of any unused benefits such as annual leave, by providing for an accrual in the accounts.

3.2.3 Contracts and Leases

The definitions of finance and operating leases have been amended under IFRS and experience elsewhere is that more leases will be accounted for as finance leases. The Code also requires that with regard to property leases, land and building are treated as separate assets and should be split at inception. Leases of land will generally be operating leases but buildings on the land may need to be treated as a finance lease.

The Code also prescribes that implicit leases may be identified in contracts (typically service contracts) and should be accounted for separately from the usual revenue and expenditure payments.

3.2.4 Disclosures

Following the introduction of IFRS, experience elsewhere has seen a significant increase in the size of the accounting statement as considerably more disclosures are required.

- 3.3 The move towards IFRS based financial reporting presents a significant challenge to the Authority due to the volume and complexity of the standards. Experience elsewhere has shown the transition to be lengthy and complex and that a range of officers from different functions, such as; Human Resources, IT, Estates and Audit should be involved in the process.

3.4 Appendix B provides details of the proposed plan for the period September 2009 to June 2011 for the conversion from existing UK GAAP accounting requirements to IFRS accounting requirements. The plan identifies areas where work is required along with the tasks that need to be undertaken.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The implementation of IFRS is a statutory requirement and the annual Statement of Accounts will need to be fully compliant with the statutory regulations.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

STUART KELLAS
TREASURER

IFRS Impact Assessment for West Midlands Fire Service

I-FReM	Subject	UK GAAP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 1	Presentation of Financial Statements	FRS 3	Reporting requirements contained in the Statement of Accounts will be increased considerably	Financial Management staff will require more time to format the accounts. There will be an increase in volume of information that needs to be captured and collated. Consideration needs to be given to a requirement for a systems change to facilitate this.	Red
IAS 2	Inventories	SSAP 9	Very minor differences	No deferred payments in operation	Green
IAS 7	Cash Flow Statements	FRS 1	Cash flow statements include cash and cash equivalents, reported as 3 instead of 9 headings. Reconciliation of movements in cash flows to movements in net debt not required.	Reformatting of cash flow statements and re-analysis of cash flows required. No additional data requirements expected.	Amber
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	FRS 3 & 18	Need to develop IFRS policies. Prior period figures will need to be adjusted for any material error (not just fundamental errors). Change in accounting policy or correction of errors contain increased disclosures including estimated future impacts of new standards not yet adopted.	A full evaluation will be required and identification of policy options.	Red

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 10	Events after the Balance Sheet Date	FRS 21	Almost identical	No impact	Green
IAS 11	Construction Contracts	SSAP 9	Not applicable	No impact	Green
IAS 12	Income Taxes	FRS 16 & 19	Slight change to presentation on balance sheet for current tax	No impact	Green
IAS 16	Property Plant and Equipment	FRS 15	No longer carry assets at cost – must be at “fair value” & verified by professional valuers. Each part of an item with a cost significant in relation to total must be depreciated separately–component accounting. Comparatives are required for all disclosures. Need to decide frequency of revaluation but standard indicates annual valuations for assets liable to volatile changes in value. More disclosures on method, name of valuer etc. for property and non property.	Change in valuation may have an impact on the reported financial position. Additional resources may be required for external support for professional valuations via Sandwell MBC. Full review of the interpretation of the standard & disclosures is required. Assessment of assets liable to volatile valuation changes	Red

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 17 and IFRIC 4	Leases	SSAP 21 and FRS 5	Land & buildings must be treated as separate leases from inception of lease. Contracts not previously a lease could have the characteristics of being a lease. Additional disclosures.	WMFS have three lease arrangements. All significant leases will have to be evaluated against IAS17 criteria and re-classified where necessary. Resources will be required to evaluate existing leases. Examine asset sharing arrangements where underlying leases may not have been recognised. To discuss with auditors whether it is likely other contractual arrangements could be classed as leases under IAS 17, e.g. service charges and agree materiality limit of contracts.	Red
IAS 18	Revenue	FRS5	Very minor differences.	No change anticipated.	Green
IAS 19	Employee Benefits	FRS 17	Any benefit to be recognised in the period it is earned rather than when paid.	Accrue leave entitlement not taken. Need to ensure system/procedure is in place to capture information for 2009/10. No impact on pensions expected. Ascertain whether SMART can accommodate requirements. Further guidance needed on flexi, TOIL, Carers Leave, Long Service Awards and redundancy.	Red

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 20	Accounting for Government Grants	SSAP 4	Grants relating to recognised assets should be presented as deferred income or cost of asset, less grant. SORP already adopts first approach under SSAP4.	No impact	Green
IAS 21	The Effects of Changes on Foreign Exchange Rates	FRS23	Not applicable	No impact	Green
IAS 23	Borrowing Costs	FRS 15	Specific borrowing used to finance fixed assets should be capitalised, although standard not mandatory for assets held at fair value. Cost of capital should not be considered as borrowing costs	No impact	Green
IAS 24	Related Party Disclosures	FRS 8	Disclosures required in the separate financial statements of parent entities. Disclosure of key management compensation even if conflict of confidentiality.	Further investigation is required. Review is required of existing related party arrangements	Green

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 26	Accounting and Reporting by Retirement Plans	FRS17	Actuarially determined present value of promised retirement benefits calculated on projected salaries to be disclosed in accounts or Statement of Net Assets	Information should automatically be provided by Government Actuary's Department (GAD) and West Midlands Pension Fund.	Green
IAS 27	Consolidated and Separate Financial Statements	FRS 2 & 5	Not applicable.	No associates	Green
IAS 28	Investments in Associates	FRS 9	See IAS 27	No associates	Green
IAS 29	Financial Reporting in Hyperinflationary Economies	UTIF 9 & FRS 24	Not applicable	No impact	Green
IAS 31	Interests in Joint Ventures	FRS 9	See IAS 27	No associates	Green
IAS 32	Financial Instruments Presentation	FRS 25 & 29	Adopted by SORP 2007	No impact	Green
IAS 33	Earnings per share	FRS 22	Not applicable	No impact	Green
IAS 34	Interim Financial Reporting	ASB's statement	Not applicable	No impact	Green

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 36	Impairment of Assets	FRS 11	New extensive disclosures. Impairment will only go to revenue account if loss exceeds balance on revaluation reserve relating to specific asset	Additional information may be required to enable increase in disclosures.	Amber
IAS 37	Provisions, contingent assets and liabilities	FRS 12	IFRS is very similar to UK GAAP	No impact expected	Green
IAS 38	Intangible Assets	FRS 10 & SSAP13	Held at valuation on balance sheet. Development costs capitalised. Software integral to the running of an item of equipment, (operating system) must be treated as plant and equipment not intangible.	WMFS currently recognises intangible assets but further investigation is required as classification under IFRS is broader	Amber
IAS 39	Financial Instruments Recognition & Measurement	FRS 26	Long term debtors and creditors that are financial instruments are likely to require discounting. Loans to reflect fair value. Contracts that have embedded derivatives may need to be recognised for the first time.	Systems/procedures will need to be implemented to review all contracts, e.g. purchase contracts for embedded derivatives.	Red
IAS 40	Investment Property	SSAP 19	Not depreciated-gains/losses recognised in income statement. Extensive disclosure requirements.	Further clarification of WMFS assets. Properties held for reasons other rather than income generation are not investment properties and not accounted for as investment properties.	Amber

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IAS 41	Agriculture	NONE	Not applicable	No Impact	Green
IFRS 1	First Time Adoption of IFRS	NONE	Restate balance sheet. Any impact on financial position requires full reconciliation. Account for any reclassification for leases from day one of lease.	Project planning and assessment of first time adoption.	Red
IFRS 2	Share Based Payment	FRS 20	Not applicable	No Impact	Green
IFRS 3	Business combinations	FRS 6, 7 & 10	Applicable if WMFS has a business combination with private sector	Not applicable	Green
IFRS 4	Insurance Contracts	FRS 27	Contracts issued by an insurer	Not applicable	Green

I-FReM	Subject	UK GAPP	Implication under IFRS	Impact on West Midlands Fire Service	Impact
IFRS 5	Non Current Assets Held for Sale	FRS 3	Measured at lower of fair values less cost to sell & their carrying amount. Not depreciated. Assets held for sale to be grouped and disclosed separately. Tighter restrictions on the criteria for recognising discontinued operations.	WMFS to review current position to identify such assets under IFRS.	Amber
IFRS 6	Exploration for Mineral Resources	NONE	Not applicable	No Impact	Green
IFRS 7	Financial Instruments: Disclosures	FRS 29 & 13	Changed disclosure requirements Bad debt provision only applied where 'objective evidence of loss events present' Additional disclosures for debtors, including level, impairment & reasoning, provisioning policy	Classification of debt at more detailed level will require additional work	Red
IFRS 8	Operating Segments - Reporting	SSAP 25	Disclosure of management reporting information to "Chief Operating Decision Maker". Segmental disclosure must contain at least net profit and Gross Assets. Segmental disclosure must be reconciled to I&E and Balance sheet. Also to disclose fully any fees and charges in excess of £1m for each income generation activity.	Consideration is required and External Audit advice sought for applicability to WMFS	Red

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROJECT PLAN

Corporate Accounting	Contracts and Leases	Capital Accounting	Employee Benefits
September to December 2009			
Complete an impact assessment	Review work completed through the contracts review to identify to what extent this can be utilised	Amend the format of the register to allow for individual components to be recorded	Determine all types of leave to be accounted
Establish a project team			Complete review of untaken annual leave
Brief the Audit Committee	Agree a methodology for the review, including materiality levels	Consider what level of disaggregation may be appropriate for different categories of assets	Evaluate the results of the review and estimate the accrual required in the opening balance sheet as at 1 April 2009
Engage with the Audit Commission	Agree materiality level of contracts with the Audit Commission	Agree level of disaggregation (component) with the Audit Commission	Agree methodology and results of the accrual with the Audit Commission
Establish a detailed project plan	Provide specific training to officers involved in this review		Remind managers to ensure that holiday cards and details on SMART are up to date
Review resource requirements	Complete a review of contracts for potential arrangements that may need to be accounted for differently under IFRS	Review the capital programme to determine any significant enhancement and replacement schemes	Review the accounting policy for pensions in light of the Code
Provide general awareness training on IFRS for all key staff and Officers		Formulate policies and procedures for component accounting	
Review and update accounting policies		Review Code requirements in detail and provide updated guidance to budget holders on which costs can be capitalised under the Code	
Review the chart of accounts and fully map this to the current format and the general ledger		Identify, assess and quantify potential decommissioning	
Review disclosure requirements			
Develop a complete skeleton Statement of Accounts under IFRS			
Identify additional information required for disclosures			

Corporate Accounting	Contracts and Leases	Capital Accounting	Employee Benefits
September to December 2009			
<p>Complete a risk assessment of the potential impact of IFRS on the budget and the Authority's wider financial standing</p> <p>Collate information for preparation of the restated 1 April 2009 opening balance sheet</p> <p>Update systems and processes to ensure relevant data will be captured</p> <p>Restate 1 April 2009 opening balance sheet</p>	<p>Identify contracts that may contain financial instruments and complete further work as part of other work streams</p> <p>Review all leases identified to determine if they should be accounted for as an operating lease or finance lease</p> <p>For all leases judged to be finance leases under IFRS, calculate the asset and liability to be recognised in the opening balance sheet</p> <p>Prepare the accounting entries to restate the assets and liabilities in the opening balance sheet as at 1 April 2009</p>	<p>Engage with the asset valuers to ensure that all future asset valuations are undertaken on a component basis</p> <p>Ensure that the Excel Fixed Asset Register is able to comply with the requirement for component accounting</p> <p>Recognise decommissioning liabilities at inception and capitalise by creating a provision</p>	<p>Decide if the accrual for untaken leave is material and should be accounted for</p> <p>Agree materiality level of accrual with the Audit commission</p> <p>Monitor if statutory guidance is issued to neutralise the impact on the General Fund</p> <p>Review redundancies and early retirements that may result in pension payments after 1 April 2009 and assess the liabilities to be accrued as at that date</p> <p>Consider future potential of utilising SMART system</p>
January to June 2010			
<p>Build information requirements to support restatement of the 2009/10 accounts under IFRS into the closedown plan and supporting guidance</p> <p>Produce 2009/10 annual accounts under 2009 SORP</p> <p>Restate 2009/10 accounts under IFRS</p> <p>Produce 2009/10 Whole of Government Accounts (WGA)</p>	<p>Review annual lease payments and apportion them between finance charge and reduction of the liability</p> <p>Calculate the depreciation charge for the assets acquired under lease</p> <p>Prepare the accounting entries to reflect the revised treatment of the annual payments</p>	<p>During the capital closedown process, ensure that all assets added onto the fixed asset register are disaggregated into their individual components</p> <p>As part of the closedown process review if the revised requirements for capitalisation have been adhered to</p>	<p>Complete a second exercise to capture leave entitlements as at 31 March 2010 as part of the 2009/10 closedown process</p> <p>Review the results of this exercise and determine the accounting treatment</p>

Corporate Accounting	Contracts and Leases	Capital Accounting	Employee Benefits
pack under IFRS			
July to September 2010			
Conduct post implementation review			
Audit of the 2009/10 accounts under the 2009 SORP and of the 2009/10 Whole of Government Accounts (WGA) pack under IFRS			
October 2010 to June 2011			
Incorporate learning points from 2009/10 into the closedown plan for 2010/11	Review and assess all new contracts for 2010/11	Apply procedures established in the previous year	If applicable, put arrangements in place to capture annual leave entitlement at year-end on an annual basis
Prepare 2010/11 accounts under IFRS with comparatives for 2009/10	Determine if any new leases should be accounted for as finance leases		As part of the annual closedown process, assess any liabilities in respect of employment contracts terminated in the year
	Prepare 2010/11 accounting entries for existing and new finance leases		