

As local authorities continue to prepare for the implementation of IFRS, Paul Gosling looks at the biggest challenges facing them.

■ With the adoption of 'fair value' widely blamed for the collapse of the financial markets, no one would sensibly argue that moving to IFRS is a simple matter. While the NHS and central government are now completing their move to international accounting standards, the adoption of IFRS remains a daunting task for local government – to be achieved from 2010/11. It remains to be seen whether local authorities, as late adopters, will be in a position to learn from the experience of those who went before.

IFRS is welcomed as potentially improving councils' financial reporting practices. Mark Luntley, Finance Programme Director at the Local Government Association, says: "IFRS is a good thing, because accounts should be easy to use and read. So to the extent that IFRS helps with this, we are in favour of them. It makes accounts much more comparable. With money available for all parts of the public sector likely to become much tighter, there needs to be an informed debate about what assets are owned [by the public sector] and how money should be spent."

Local authorities have been given guidance on preparing for IFRS for 2010/11 (see box). But, points out Luntley, the move to IFRS comes as part of a series of important developments in local government financial reporting over recent years. In particular, the time within which local authorities must publish their annual financial reports has halved – councils now have three months to prepare their accounts from close of financial year, with their auditors having another three months before they are published. "Which is a good thing," stresses Luntley. In addition, the Department for Communities and Local Government is currently consulting on whether local authorities should publish more explicit details of the remuneration of senior staff.

The new demands on councils to produce enhanced, different and faster accounts can



preparing for IFRS

be expected to increase pressure on their finance staff. However, the LGA has not – as yet – been told by any councils that they are having specific difficulties in preparing for IFRS. Luntley says that it is accepted that councils' preparedness for IFRS "is an issue". He adds that should smaller district councils have problems, larger local authorities – county councils, especially – might be expected to help them out. Luntley argues that the challenge of moving to IFRS illustrates the importance

of continual professional development, as championed by ACCA.

assessing councils' readiness

The Audit Commission implies it is too early to assess councils' readiness for IFRS. "The Commission Board has commissioned a study into local government's preparedness for the transition and we hope to publish an initial report in December/ January," says a spokeswoman.

Gillian Fawcett, Head of Public Sector (Technical) at ACCA, believes that most authorities will not find the transition to IFRS too difficult. "They have gone part of the way to implement some of this without much problem," she points out. "They did have a lot of guidance and support and there is a lot of technical guidance out there.

"But with any major change, whether it is financial or anything else, it is essential for directors of finance to put in the preparation, or things will go wrong. If directors of finance are well prepared, with guidance, if staff are fully trained-up, then everything should work through. But there are still issues to be resolved – particularly on the treatment of PFI contracts – and the standard-setting bodies are working to resolve those. For authorities that are deemed excellent or good, IFRS will not be such an issue. Those authorities with less resources and capacity will need more support."

relishing the prospect

Some in local government relish the prospect offered by IFRS, including Westminster City Council. Peter Hayday – Director of Finance and Resources at Westminster, who joined from the Kier Group – says that his experience in the private as well as the public sector persuades him of the potential benefits of IFRS. "I don't believe there is a significant amount of additional work for us, or other local authorities – unless they are poor already," he explains.

Hayday believes that local authorities will move more easily to IFRS than the civil service is doing – for the simple reason, he argues, that accounting practices and the quality of financial reports in local government were already superior to those in central government. But, he accepts, councils will have to take on further tasks. "There is clearly going to be more work around accounting for capital assets," he says. "Whether that is a bad thing or not I am open minded on. There are good bits and some unnecessary bits."

Specifically, Hayday believes it is not sensible that as part of the move to IFRS councils – which have previously not had to depreciate asset values – must show in their accounts many years of depreciation, which is then adjusted out of the accounts. "It doesn't make sense," he says. Hayday also thinks that it is unnecessary to use a private sector approach in accounting for local government pension funds.

Westminster City Council has had to make an investment in its systems to prepare

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for the move to IFRS, but this has mainly been in buying IT systems that the finance department believed were necessary anyway. IFRS has helped officers to persuade members the software acquisitions were essential and ensured they were bought without delay. There has also been significant expenditure in valuing the council's property portfolio to meet IFRS requirements – but Hayday says this is also spending that would have been incurred to assist the Council to manage its portfolio effectively.

missed opportunity

Hayday believes that IFRS is a missed opportunity in the sense that it does not address a central problem of local government financial reports – they are not easily understandable to lay members of the public, the media, or even to many councillors. "I would love the local electorate to use those accounts, because there is some hugely useful information in them," he says. This includes, for example, what is held in fixed assets and investments. "So people would not have known about the amount of money invested and so they would not have been surprised when information on Iceland came out," he argues.

But, Hayday warns, moving to IFRS will not make local authorities' accounts easier to understand. "The volume puts people off looking at them," he says. "The important bits get buried." Consequently Westminster and many other councils publish an additional document that summarises the main accounts to emphasise what they regard as the most essential information. "I think it's a shame we have to do that," he says. "It's a sad reflection of how turgid the accounts have become. That's a personal view – but it's a view my members share." ■

Paul Gosling is a freelance journalist

IFRS Implementation Plan

IFRS-based accounts are being introduced in local government in the UK from the financial year 2010/11. Central government departments were required to meet four 'trigger points' for preparation of IFRS accounts, but these 'trigger points' are not being used for local government.

CIPFA's Local Authority Accounting Panel (LAAP) has issued the following guidance to help councils plan for the adoption of IFRS on a staged basis:

- by May 2009, carry out impact assessment of use of IFRS on PFI contracts, leases, tangible assets, employment benefits, etc
- by May 2009, identify changes to accounting policies
- by May 2009, identify key staff, allocate responsibilities, develop detailed project plan
- on an ongoing basis, train key staff on IFRS transition
- March to July 2009, identify systems and procedural changes required
- March to September 2009, identify information – such as leases and holiday pay – required to restate 1 April 2009 balance sheet and 2009/10 accounts
- March to September 2009, develop skeleton Statement of Accounts under IFRS
- March to September 2009, obtain information to restate 1 April 2009 balance sheet
- March to September 2009, identify any impact on budgets
- July 2009 to January 2010, implement systems and procedural changes
- from July 2009, train all relevant staff and councillors
- July to December 2009, restate 1 April 2009 balance sheet, with reconciliations between UK GAAP and IFRS
- October 2009 to January 2010, compile 2010/11 and later budgets on IFRS basis
- July 2009 to March 2010, test systems and procedural changes
- April to December 2010, restate 2009/10 accounts
- April to June 2011, produce 2010/11 accounts on IFRS basis.

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