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AGENDA ITEM No.

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Ms Elizabeth Aitken
Director of Finance & Procurement
Mid & West Wales Fire & Rescue Service
Fire Service Headquarters
Lime Grove Avenue
Carmarthen
SA31 1SP

Our ref ip/pj

14 February 2008

Dear Ms Aitken

Introduction of IFRS into the public sector

As you are no doubt already aware, the Chancellor of the Exchequer announced in his 2007 Budget speech that the annual accounts of central government departments and related public bodies, together with the UK Whole of Government Accounts (WGA), will be produced from the 2008/2009 financial year using International Financial Reporting Standards (IFRS), as applied and interpreted for the public sector.

In December 2007, the CIPFA/LASAAC Local Authority SoRP Board agreed that local government bodies will not be required to produce IFRS based accounts until 2010/2011. (The 2010/2011 accounts will also need to include converted 2009/2010 comparative figures). Because the WGA will be based on IFRS from 2008/2009, the accounts of local government bodies will also need to be converted to an IFRS basis for consolidation purposes for 2008/09 and 2009/10.

HM Treasury is currently considering how this can be achieved. It is probable that local government bodies will be required to provide additional information to HM Treasury on those aspects of their accounts that are likely to be most affected by the introduction of IFRS (e.g. PFI schemes, highways valuation). This would enable WGA adjustments to be made at a national level. CIPFA/LASAAC has been involved in discussions with HM Treasury and is of the view that the additional information requirements will not create significant additional burdens for local government bodies. Assuming that this approach is adopted, as Responsible Financial Officer, it is likely that you will be required to provide the additional information to HM Treasury. We do not know at present whether there will be a requirement for this information to be audited.

In the longer term, you will be required to ensure that you have in place appropriate arrangements for the conversion to IFRS. We understand that CIPFA/LASAAC plans to finalise the IFRS-based SoRP in September 2009. The intervening time will provide local authorities with the opportunity to develop project plans which can incorporate the lessons arising out of the experiences of central government and NHS bodies, who must introduce IFRS based accounts for 2008/09. Such project plans would include details of training and resource requirements and a timetable for the process.

One of the most significant issues arising out of the introduction of IFRS will be the need to review the accounting treatment of all PFI schemes. Where the balance sheet treatment changes (e.g. from 'off' balance sheet to 'on' balance sheet or vice versa), there will be a need for extensive prior year adjustment in the first set of accounts prepared under IFRS.

According to our records you do not have any PFI schemes.

I should be grateful if you would confirm that this information is complete and accurate.

We will aim to provide support to you as you develop your IFRS project and there are many ways in which we can help, including:


- sharing with you the experiences of central government and NHS bodies in introducing IFRS;
- commenting on IFRS conversion plans;
- commenting on areas where changes in accounting policy or disclosure are likely;
- contributing to preliminary diagnoses of the impact on financial reporting and accounting systems;
- reviewing accounting issue papers prepared by audited bodies;
- discussing with you the requirements of IFRS standards and their interpretation; and
- reviewing and discussing transition project scope and governance arrangements, including roles and responsibilities.

External auditors are bound however by ethical standards which preclude us doing anything which could, or could be seen to, compromise our independence and objectivity. Consequently, although we will provide support where appropriate, we cannot become involved in your implementation arrangements or in your decision-making processes. The final decision on the appropriateness of accounting policies rests with you.

In addition to increasing your workload, the introduction of IFRS based accounts will also result in additional work for auditors, which will inevitably have a consequent impact on fees. The WAO is currently analysing the potential impact, which we will of course endeavour to keep to a minimum, and I will let you have further information on this as soon as this is available.

'Those charged with governance' will also have an important role during this process, in terms of advising on the project plan and the suitability of accounting policies and also in monitoring progress. I therefore enclose a copy of this letter for Councillor P James and I should be grateful if this letter could be placed on the agenda of the next Performance Review and Audit Committee meeting.

Yours sincerely



Gilbert Lloyd
Partner

Copy to:

- Councillor P James, Chair of Performance Review and Audit Committee

