

# IFRS ACTION PLAN – DARLINGTON BOROUGH COUNCIL

## Annex A

Step	Suggested key actions	Timing	Outcome
<p>1. Implement project management team</p>	<ul style="list-style-type: none"> <li>• Develop Terms of Reference for the team;</li> <li>• Agree work loads and key milestones; and</li> <li>• Hold regular progress meetings until project completion</li> </ul>	<p>Immediately and throughout the project</p>	<p>Setting up an IFRS project team to lead and monitor the transition is important. The team must have the required level of IFRS knowledge, and where knowledge gaps are identified, training should be provided or external consultants engaged.</p>
<p>2. Involve those charged with governance</p>	<ul style="list-style-type: none"> <li>• Need to present an initial impact assessment to the Audit committee</li> </ul> <p>Management should ensure:</p> <ul style="list-style-type: none"> <li>• The Audit Committee is updated with the findings from the work undertaken to agree operating segments for segmental reporting;</li> <li>• The IFRS accounting policies are approved by the appropriate committee; and</li> <li>• The IFRS restated numbers are also appropriately approved.</li> </ul>	<p>Immediately and throughout the project</p>	<ul style="list-style-type: none"> <li>• Gain sponsorship of project;</li> <li>• Promote stakeholder understanding of impact on reported position; and</li> <li>• Ensure appropriate approval of restated comparative information.</li> <li>• There has been 3 update repots to Audit Committee – March 2010, September 2010, April 2011.</li> <li>• The restated accounts were presented to the April 2011 Audit Committee.</li> </ul>

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<p>3. Liaise with external auditors about IFRS transition</p>	<ul style="list-style-type: none"> <li>• Need to meet to discuss project approach and views on materiality; and</li> <li>• Schedule regular update meetings going forward to update on progress and discuss issues arising</li> </ul>	<p>Immediately and throughout the project</p>	<p>Technical issues in 2009/10 are being evaluated on an IFRS basis to ensure no surprises on restatement.</p> <p>The Council has consulted with its external auditors on a regular basis to discuss deadlines and requirements for restatement. Any changes to the IFRS legislation have been incorporated into the restated accounts.</p>
<p>4. Assess IFRS information and IT requirements</p>	<ul style="list-style-type: none"> <li>• Review of impact assessment outputs to assess new areas of accounting impact;</li> <li>• Assess whether information can be obtained from current IT systems and processes, and make arrangements to refine current systems to manage functionality gap; and.</li> <li>• Review of the current systems used by the Council to identify potential data gaps, and the systems suitability going forward.</li> </ul>	<p>Immediately</p>	<p>IFRS in many areas has resulted in new information requirements, particularly with regards the annual leave/flexi-time pay accrual, as well as lease-type arrangements and embedded derivatives.</p> <p>The Council assessed new information requirements early, and ensured there was appropriate engagement across the Council to ensure systems and processes were updated where necessary to obtain the information. The council has also reviewed whether current IT systems and processes have the required functionality to be able to meet the information needs of the Council.</p>

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5. Assess PFI Accounting	<ul style="list-style-type: none"> <li>• Review the Council’s scheme against the decision criteria of IFRIC 12;</li> <li>• Take external accounting and modeling advice as deemed appropriate; and</li> <li>• Consult with external auditors</li> </ul>	Immediately and ongoing as part of the PFI process	<p>Technical review and consideration of one of the key IFRS impact areas has been undertaken. This has resulted in some significant changes to accounting treatment.</p> <p>The PFI scheme has come on balance sheet on transition to IFRS. External auditors have checked the PFI model and agreed the approach undertaken.</p>
6. Employee benefit issues	<ul style="list-style-type: none"> <li>• Undertake numerical analysis to quantify the required accruals in respect of annual leave, flexi-time etc to see if applicable.                             <ul style="list-style-type: none"> <li>• Liaison between Finance and HR to discuss practicalities of collecting data</li> <li>• Collate responses and calculate estimates (representative sample)</li> <li>• Develop a project plan to implement changes to processes and systems for 2009/10 and beyond.</li> </ul> </li> </ul>	Up to end of August 09	All accruals have been calculated to be able to restate balance sheet by end of December 10.

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7. Review fixed asset accounting	<ul style="list-style-type: none"> <li>• Carry out review of fixed asset accounting to address the following issues                             <ul style="list-style-type: none"> <li>- Initial measurement of Fixed assets</li> <li>- Capitalisation of refurbishment /enhancement costs;</li> <li>- Depreciation profiles</li> </ul> </li> <li>• Obtain valuations to split out land and building values for leasehold property</li> <li>• Consider assets held for sale</li> <li>• Review valuation principles adopted in compiling the Transport Asset Management Plan against those required for IFRS accounts purposes.</li> </ul>	IFRS review – June 2009 to September 2009.	<p>The finance team worked closely with the in-house valuer to devise an appropriate approach to asset componentisation, ensuring it is practical for both GF and Housing Stock assets. Guidance on componentisation for HRA became available at the end of January 2011 and will be incorporated into the production of the final accounts.</p> <p>Engagement with external audit has been essential</p>

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8. Address issues relating to segmental reporting	<ul style="list-style-type: none"> <li>• Seek engagement of the Council's Audit Committee and Senior Management Team</li> <li>• Identify reportable segments by considering the following:-               <ul style="list-style-type: none"> <li>- Who is the CODM (Chief Operating Decision Maker)?</li> <li>- What are the Council's operating segments?</li> <li>- Can any operating segments be aggregated?</li> <li>- Are all segments reportable segments?</li> <li>- Do reportable segments account for 75% of revenues?</li> </ul> </li> <li>• Develop methodology for splitting Income, Expenditure and Balance Sheet entries across reportable segments</li> </ul>		<p>Changes to the Council's management reporting could have a significant impact on the Council's day to day operations and as such it is vital that all stakeholders are fully consulted on the process.</p> <p>The Chief Operating Decision Maker is designated as Cabinet.</p> <p>The segments are going to be shown in the same format as the report that goes to Cabinet i.e. by department.</p>

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<p>9. Address issues surrounding leases</p>	<ul style="list-style-type: none"> <li>• Review lease arrangements to identify operating and finance leases;</li> <li>• Ensure that this review covers both lessee and lessor situations;</li> <li>• Identify lease arrangements where no formal lease is in place;</li> <li>• Obtain valuations to split out land and buildings for leasehold property; and</li> <li>• Identify disclosure requirements.</li> </ul> <p>Achievement of the above actions depends largely upon the Council being able to identify all of its leases, and contracts and arrangements which may contain a lease.</p> <p>The Council has a register of leases but it does not include land and buildings – the register needs to be extended to include all leases and contracts i.e. to be comprehensive.</p> <p>The completeness of lease registers is essential.</p>	<p>July to September 2009.</p>	<p>The Council has established a checklist approach to reviewing leases and gathering the required information. This has addressed the requirements of lease accounting, arrangements containing a lease, and embedded derivative review as a minimum.</p> <p>The Council has completed this work and has consulted and agreed with the external auditors on its approach and way forward</p>

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Step	Suggested key actions	Timing	Outcome
10. Draft IFRS pro-forma accounts and working papers	<ul style="list-style-type: none"> <li>• Prepare IFRS compliant skeleton document, including accounting policies, into which the IFRS numbers will be input;</li> <li>• Circulate to those charged with governance (audit committee) and the external auditors for review and comment.</li> </ul>	Ongoing – CIPFA IFRS based code released	Managing the expectations of key stakeholders prior to the audit of the restated numbers will reduce the likelihood of late changes to the format of the accounts and additional work.
11. Restate 2009/10 accounts (IFRS)	<ul style="list-style-type: none"> <li>• Undertake numerical analysis to quantify the restatement journals, employee benefits (if applicable), lease capital and other IFRS adjustments.</li> <li>• Prepare a working paper showing the 2009/10 UK GAAP audited figures in the left column, the IFRS numbers in the right column and the movements between the two in the middle.</li> <li>• Each movement in the middle column should be supported by a further working paper and cross referenced to primary documentation.</li> <li>• Prepare segmental reporting</li> </ul>	September 2010 – December 2010	This would facilitate the audit of the restatement and reduce the time spent and associated fees. The unaudited restated 2009/10 accounts presented to Audit Committee in April 2011.

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	disclosures		
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12. Audit of restated figures	<ul style="list-style-type: none"> <li>• External auditors to audit restated 2009/10 figures for the 2010/11 Statement of Accounts.</li> </ul>		External audit are auditing the restated 2009/10 figures.
13. Embed IFRS accounting	<ul style="list-style-type: none"> <li>• Continue to develop systems and processes in respect of IFRS accounting</li> </ul>	From 1 April 2010	By setting up systems and processes it should be straightforward to continue accounting on an IFRS basis.