



**Haringey** Council

**Audit Committee**

**1 February 2010**

Report Title: **Implementation of International Financial Reporting Standards (IFRS) – Progress Report**

Report of: **Chief Financial Officer**

Signed:

**Gerald Almeroth**

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Wards(s) affected: **All**

Report for: **Non-key decision**

**1. Purpose of the report**

- 1.1. To inform the Committee of the progress made in respect of the implementation of International Financial Reporting Standards (IFRS) and the actions that are proposed in order to secure full implementation.

**2. State link(s) with Council Plan Priorities and actions and /or other Strategies:**

- 2.1. The IFRS initiative has strong links to the Council's Financial Strategy and is also a mandatory requirement with objectives and timescales that are imposed by central government.

**3. Recommendations**

- 3.1. That the progress to date and proposed actions to ensure full IFRS implementation be noted.

#### **4. Reason for recommendation**

- 4.1. It is necessary to demonstrate that the Council's Audit Committee have been informed of the progress and proposed actions in respect of implementation and are aware of the main issues facing the Council.

#### **5. Other options considered**

- 5.1. There are no other options to the actions addressed in the report. The implementation of IFRS is mandatory and must be achieved within key milestone dates that have been determined by the government.

#### **6. Summary**

- 6.1 The report sets out the background and project management arrangements in respect of the implementation of IFRS accounting standards together with key milestone dates that have been determined.
- 6.2 The workload and impact in key areas has been identified and the actions currently in hand or proposed is identified. The sensible agreement reached with external auditors on de minimis levels will enable the main focus to be on higher-value, material items.
- 6.3 Changes to existing regulations are proposed by the Government to mitigate the financial effect of the additional costs arising from the IFRS accounting standards.

#### **7. Service Financial Comments**

- 7.1. The additional costs the Council will incur in preparing for IFRS are to be contained within existing budgets in 2009/10. In 2010/11 the costs will be met from a one-off investment bid in the recent Council budget making process.

#### **8. Head of Legal Services Comments**

- 8.1. There are no specific legal implications in this report.

#### **9. Head of Procurement Comments**

- 9.1. There are no procurement issues arising from this report and the implementation of IFRS.

## **10. Equalities & Community Cohesion Comments**

- 10.1. There are no direct equalities and community cohesion issues arising from this report.

## **11. Consultation**

- 11.1. No external consultation was required or undertaken in the production of this report. Consultation has taken place with service managers in respect of the gathering and analysis of data relevant to the initiative.

## **12. Use of appendices /Tables and photographs**

- 12.1. Progress against the Project Plan is summarised in the Red/Amber/Green (RAG) Status Action Plan at Appendix A to the report.

## **13 Local Government (Access to Information) Act 1985**

- 13.1. For access to any background papers or further information, please contact Stephen Preval or Rikin Tailor on 020 8489 3725

## **14 Background**

- 14.1 The Government requires all local authorities to migrate from the current UK GAAP accounting standards to new International Financial Reporting Standards (IFRS) in accordance with a mandatory timescale and to prepare restated accounts in respect of 31<sup>st</sup> March 2009 (Balance Sheet only) and 31<sup>st</sup> March 2010 (full Statement of Accounts) prior to live implementation of IFRS with effect from 1<sup>st</sup> April 2010. The implementation of the new standards will be subject to detailed review by the Council's external auditors.
- 14.2 The detailed implementation requirements are set out in a Code of Practice issued by the Chartered Institute of Finance and Accountancy (CIPFA). This Code of Practice will, from 1<sup>st</sup> April 2010, replace the annual Statement of Recommended Practice produced annually by CIPFA.
- 14.3 The Council's planning for IFRS has been supported by Impact/Gap analyses by the external auditors and by the supplier of the main financial management system. These reviews have assisted in identifying the main issues to be addressed during the implementation process.

- 14.4 Resources have been provided within the 2009/10 budget to ensure that the initiative is adequately resourced and a project leader has been appointed as an additional temporary resource to oversee and drive forward the IFRS implementation.

## **15 Project Planning**

- 15.1 A detailed project plan has been developed and this has been approved by the IFRS Project Board which is chaired by the Head of Corporate Finance who is also the project sponsor. The project has a significant impact on the Finance and Property Services Departments and sub-project plans have been implemented specific to these service areas.
- 15.2 A Project Initiation Document has been completed, signed off following approval by the Project Board and registered with the Project Management Unit.
- 15.3 The Project Board meets on a monthly basis to monitor the IFRS implementation.
- 15.4 Project planning could have been inhibited due to the late receipt of the CIPFA Code of Practice which was only published on 18<sup>th</sup> December 2009, however a risk decision was taken to develop the project plan against the draft sections of the Code that were issued for consultation and the project plan was developed on this basis. A review of the final published Code has confirmed no variations from the drafts. This approach has enabled a significant amount of the IFRS work to be progressed earlier than would otherwise have been the case.

## **16 Key Milestones**

- 16.1 The Council will be required to meet several milestone dates and these have been built into the detailed project plan. The dates are as follows: -

a) Provision of a restated opening Balance Sheet for 31<sup>st</sup> March 2009

A re-stated opening balance sheet for 31<sup>st</sup> March 2009 together with appropriate disclosure notes and accounting policies will be provided by 31<sup>st</sup> March 2010. This date has been determined locally and has not been prescribed by the Government.

b) Restatement of the 2009/10 Statement of Accounts

The Council's Statement of Accounts for 2009/10 will be produced in accordance with UK GAAP and the CIPFA SORP and then restated in accordance with IFRS. This will involve restating not only the main financial statements but also all disclosure notes and accounting policies. A date of 31<sup>st</sup> July 2010 has been determined and the restated accounts will be subject to review by the Council's external auditors.

c) Production of Whole of Government Accounts (WGA) Return for 2009/10.

The annual WGA return is a statutory return and the format and date for submission are prescribed by the Government. For 2009/10, the return will be compiled and submitted on an IFRS basis. In order that the return can be audited in September 2010, it has to be completed and submitted to the external auditors by 31<sup>st</sup> August 2010.

d) Preparation of the 2010/11 Statement of Accounts

The Statement of Accounts for 2010/11 will be prepared on an IFRS basis only and all internal financial records associated with the accounts maintained in an IFRS format. The Statement of Accounts must be prepared and approved by the Council by 30<sup>th</sup> June 2011 and audited by 30<sup>th</sup> September 2011.

## **17 Principal Impacts and Workloads**

17.1 The implementation of the IFRS accounting standards has the largest impact on the following areas in the Council's accounts: -

- Format of the main financial statements
- Disclosure notes and accounting policies
- Employee benefits
- Contract arrangements
- Leasing
- Property valuations
- Property componentisation.

### 17.1.1 Format of the Main Financial Statements

There will be significant changes in the format of the main financial statements in the annual Statement of Accounts. Pro-forma statements have been developed based on a model set of accounts provided by CIPFA and these will be included in a revised IFRS-based Statement of Accounts.

### 17.1.2 Disclosure Notes and Accounting Policies

IFRS requires a significant number of new or enhanced disclosures in the accounts and existing accounting policies will require a significant re-write in view of the significant number of changes in the accounting standards. The revised disclosure notes and accounting policies are being written in compliance with the CIPFA Code of Practice.

### 17.1.3 Employee Benefits

The Council is required to identify and cost all significant employee benefits that are accrued but unpaid at 31<sup>st</sup> March 2009 and 31<sup>st</sup> March 2010. These include Teachers' holiday pay, staff holiday pay, flexitime balances and overtime. The

amounts concerned have to be accrued in the accounts at these dates. Action has been taken to capture and cost the information for all members of staff.

#### 17.1.4 Contractual Arrangements

All of the Council's existing contract arrangements with third parties have to be reviewed in order to identify whether or not there are any hidden leases (known as "embedded leases") associated with the delivery of services under a contract. Any embedded leases that are identified have to be analysed to identify whether the lease is an operating lease or a finance lease and the lease arrangements accounted for in accordance with the CIPFA Code of Practice. The appropriate service managers are currently scheduling and analysing these contractual arrangements. Pro-forma documentation is being used across the board, including schools, in order that there is a corporate and consistent approach

#### 17.1.5 Leases

All existing leases are currently being reviewed as there is a need to reconsider under IFRS whether or not leases have previously been correctly accounted for as either operating leases or financial leases. Any changes in definition that are identified will be made from the inception date of the lease concerned. Pro-forma documentation is being used across the board, including schools, in order that there is a corporate and consistent approach.

As part of this review a corporate, central database of all of the Council's leases will be developed in the asset management module of the SAP financial management system.

#### 17.1.6 Land and Buildings Valuations

All property assets have to be split into separate land and buildings elements and each element separately depreciated under the IFRS accounting standards as the land and buildings elements will, in most cases, have different useful economic lives. All property assets are currently being re-valued in order that a full IFRS valuation is available for the 2009/10 restated Statement of Accounts and for 1<sup>st</sup> April 2010 which is the live implementation date for IFRS.

#### 17.1.7 Buildings Components

With effect from 1<sup>st</sup> April 2010, any capital expenditure on buildings will have to be broken down into its significant components such as the buildings themselves, roofs, lifts plant etc. These components will be separately recorded in the accounts and the fixed assets register and then depreciated based on their useful economic lives. As part of the current revaluation exercise referred to at 17.1.6 above, any components that are identified will be recorded in this way.

### 17.1.8 Balance Sheet Re-classifications

Certain assets or liabilities in the balance sheet have to be re-classified with effect from the re-stated 31<sup>st</sup> March 2009 closing balance sheet in accordance with strict IFRS definitions set out in the Code of Practice.

## 18 **De Minimis Levels**

18.1 In view of the potential workload involved in respect of land and buildings revaluations, contract arrangements and leases a number of proposals were submitted to the Council's external auditors requesting agreement for practical and sensible de minimis levels that would enable the focus to be on higher-value, material items. Subject to minor caveats to ensure that all high value assets are identified, these de minimis levels have been agreed and the main ones are as follows;-

- Land and building with a combined value less than £50k or a lease period of less than 15 years to be treated as building only in the accounts and asset register.
- Any property leases with an annual value below £50k will be de minimis and treated as operating leases in the accounts.
- Any equipment leases with a capital value below £50k or a lease period of less than 3 years will be de minimis and treated as operating leases in the accounts.
- Any contract arrangements with a capital value below £50k or a contract life of less than 3 years will be de minimis and treated as operating leases in the accounts.
- Any category of employee benefit with an accrual cost of below £100k will be disregarded as de minimis.

## 19 **Group Accounts**

19.1 International Financial Reporting Standards, similar to those incorporated within the current Local Government SORP, require local authorities to produce group accounts where they have subsidiary or associates entities. However, the spirit of the international standards includes a change from the SORP in that an entity could be treated as a subsidiary based on the Council's *ability to control* whereas the SORP currently refers to *actual control taking place*.

19.2 This change in emphasis within the code means that the Council needs to review all organisations that it has a relationship with, to ascertain whether some form of group relationship exists, in accounting terms. More organisations may, therefore, need to be consolidated into the Council's group accounts under the new arrangements.

19.3 As a result of this, there is a possibility that the accounts of the Alexandra Park and Palace Charitable Trust (APPCT) will be required to be grouped with the

Council's accounts from financial year 2010/11. The Council's initial view is that this is likely to be necessary although further work is required in this area to come to a final conclusion. If grouping of the accounts of APPCT is required one challenging accounting issue that will require resolution is how the debt owed by the Trust to the Council is accounted for. Currently the debt is not within the Council's accounts, as it was previously written down. However, the debt is still within the APPCT accounts as the Council has not fully discharged it. External advice will be sought to assist with resolving these issues.

## **20 Changes to Regulations**

- 20.1 The implementation of the IFRS accounting standards has a significant impact on local authorities' income and expenditure accounts and would therefore also impact on the Council's General Fund Balance and Council Tax precept in 2010/11. The Government therefore proposes to issue changes to regulations- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 to mitigate the impact.

## **21 Action Plan**

- 21.1 The current position is summarised in the Red/Amber/Green (RAG) status Action Plan at Appendix A to the report. The only concerns at this time, shown as Amber in the action plan relate to the provision of scanned lease documents to Property Services and Finance staff by Legal Services and the need to secure external advice on the Group Accounts issue.
- 21.2 Action will be taken to address these issues. Any failure to do so could impact on subsequent tasks such as financial analyses of operating leases and finance leases and this, in turn, could prejudice the restatement of the 31<sup>st</sup> March 2009 Balance Sheet and Group Balance Sheet and the re-statement of the 2009/10 Statement of Accounts.



**Implementation of IFRS - Progress Report Action Plan**

	<b>Item</b>	<b>Target Date</b>	<b>RAG Status</b>	<b>Comments</b>
1.	Review of Code of Practice from CIPFA	Jan 2010	<b>Green</b>	Code has been reviewed - no significant changes from draft version.
2.	De Minimis Levels	Jan 2010	<b>Green</b>	De Minimis levels agreed with external auditors. Details have been issued to all key personnel.
3.	Disclosure Notes, Accounting Policies & SORP	Feb 2010	<b>Green</b>	A review is taking place regarding new disclosure requirements and is on course to be completed by the target date.
4.	Contracts and Leases (excluding property)	Feb 2010	<b>Green</b>	On target to receive all contract and leasing related documents by target date.
5.	Contracts and Leases (Property Services)	Feb 2010	<b>Amber</b>	Leases that need to be assessed have been identified by property services. However there is a resource issue with Legal Services providing the required documentation in time. This matter is being escalated with a view to resolution.
6.	IFRS Revaluation of Properties	Feb 2010	<b>Green</b>	Property services are on course to revalue properties in accordance with IFRS by the target date.
7.	Technical Adjustments related to Revaluations	Apr 2010	<b>Green</b>	The technical adjustments required on revaluations are on course to be completed by the target date.

## Appendix A

8.	Group Accounts	Mar 2010	<b>Amber</b>	External advice is to be sought in respect of the possible grouping of the accounts of Alexandra Park and Palace.
9.	Employee Benefits	Mar 2010	<b>Green</b>	Collection of the data in respect of employee benefits accruals is expected to be completed by 31 <sup>st</sup> March