



Haringey Council

Agenda item:

[No.]

Audit Committee

On 3 February 2011

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

Report of: **Director of Corporate Resources**

Signed: *J. Parker* 26/1/11

Contact Officer: **Kevin Bartle, Lead Finance Officer**
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Wards(s) affected: **All**

Report for: **Non-key Decision**

1. Purpose of the report

1.1. To inform the Committee on the progress made in respect of the implementation of International Financial Reporting Standards (IFRS) and to note the ongoing actions 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. Recommendation

3.1. That the progress to date to ensure full IFRS implementation be noted.

4. Summary

4.1. In the budget in 2007 the Chancellor announced that the public sector would be moving to IFRS-based financial reporting from 2008/09 for all areas except local government. Local government would be required to report on these new standards

from 2009/10.

4.2. In the 2008 budget it was announced that this timetable would slip by one year and, therefore, local government are required to meet these standards in closing the 2010/11 accounts.

4.3. This report updates the committee on progress towards implementing the requirements of IFRS.

5. Head of Legal Services Comments

5.1. There are no specific legal implications in this report.

6. Service Financial Comments

6.1. The additional costs the Council will incur in preparing for IFRS in 2010/11 are to be contained within existing budgets.

7. Use of appendices /Tables and photographs

7.1.

8. Local Government (Access to Information) Act 1985

8.1 The following background papers were used in the preparation of this report:

- Report of Chief Financial Officer to the Audit Committee on 23 April 2009 – Implementation of International Financial Reporting Standards (IFRS)
- Report of Chief Financial Officer to the Audit Committee on 1 February 2010 – Implementation of International Financial Reporting Standards (IFRS) – Progress Report

9. Background

9.1. The Audit Committee were briefed on the requirement for the Council to complete its statement of accounts in accordance with International Financial Reporting Standards (IFRS) in April 2009 with a progress report in February 2010. The committee has also been periodically updated in the Audit Progress reports from the Council's external auditors Grant Thornton.

9.2. Annual accounts for local authorities will need to be prepared using IFRS from the year ending 31 March 2011. In addition financial information for 2009/10 will need to be restated for comparative purposes along with opening balances as at 1 April 2009. In practice, this means that the transition period for all Local Government

bodies started in 2009/10.

10. Progress to date and Milestones

- 10.1. The Council's project plan includes a number of milestones to be achieved in preparation for IFRS which are detailed below.

Restatement of the balance sheet at 1 April 2009 and at 31 March 2010.

- 10.2. Implementing IFRS requires accounting for some financial transactions as though they had always been accounted for on an IFRS basis. This requires the restatement of the transition balance sheet i.e. the balance sheet as at 1 April 2009 and 31 March 2010.

- 10.3. A draft of the restated balance sheet was completed in December 2010 and has been submitted to external audit for their review.

Restatement of the other disclosures to the accounts at 31 March 2010

- 10.4. The statement of accounts for 2010/11 will include comparator information from 31 March 2010. Consequently all disclosures required for IFRS will need to be restated.

- 10.5. Additional guidance on the Code of Practice for IFRS was received from CIPFA in December 2010 with examples of the required accounting disclosures. The requisite changes to the Council's accounting systems have been implemented to ensure that the necessary data collection processes are in place by 31 March 2011.

Review of the accounting policies for 2010/11

- 10.6. The Council's accounting policies are reviewed each year based on changes to the CIPFA Code of Practice and approved by the General Purposes Committee. The policies under IFRS will be considered by that committee in March 2011.

- 10.7. The Council will also work closely with our external auditors to ensure they have been able to review the draft set of policies prior to the March 2011 General Purposes Committee.

Preparation of the 2010/11 Statement of Accounts

- 10.8. As noted above, guidance on the 2010/11 accounts has been received from CIPFA and will inform the preparation of the accounts for the current financial year and the restatement of the 2009-10 accounts for comparative purposes. The outcome of the work external audit is currently undertaking will also inform the preparation of the accounts.

- 10.9. IFRS will now become part of the business-as-usual closing process for the Council. The timetable for the closure of accounts will be prepared in February as usual.

11. Principal Impacts and Workloads

- 11.1. The implementation of IFRS has the largest impact on the following areas of the Council's accounts.

Employee Benefits

- 11.2. The cost of accrued employee benefits such as flexitime and annual leave carried forward now need to be included in the accounts.

Leases and Contractual Arrangements

- 11.3. A small number of leases have been identified so far that were previously treated as operating leases which are to be accounted for as finance leases under IFRS. The review of leases will continue up to the balance sheet date of 31 March 2011 to incorporate any changes for new leases or leases with modifications.

- 11.4. As part of the 2009/10 Statement of Accounts work, a review was undertaken of contractual and other arrangements which involve the provision of services using specific underlying assets and which therefore can be considered as containing a lease for those assets. At that time, the review concluded that only that the suspended PFI contract fell into this category. This review process will continue for the closure of the 2010/11 accounts.

Land and Buildings Valuation and Classification

- 11.5. All property assets were revalued where appropriate under IFRS as part of the 2009/10 closing process to enable the restatement of the balance sheet.
- 11.6. The revaluation process for 2010/11 is in progress in accordance with the normal timetable for the closure of accounts and includes a full revaluation of the investment property portfolio.
- 11.7. Some assets have also been reclassified in the restated IFRS balance sheet. For example, the category of 'Assets Held for Sale' has much stricter criteria than the former 'Surplus Assets' category so some assets formerly classified as surplus will be held as 'Property, Plant and Equipment'.

Building Components

- 11.8. From 1 April 2010, any addition to, enhancement of or revaluation of buildings requires a judgement to determine whether the building has significant

components that have varying economic lives and should therefore be depreciated over differing periods of time. The components are then recorded separately in the asset register and depreciated over their respective economic lives.

- 11.9. The consideration of components is in progress in line with the normal closing timetable.

Group Accounts

- 11.10. IFRS still requires local authorities to produce group accounts where they have subsidiary or associate entities. Haringey's 2009/10 group accounts consolidated Homes for Haringey's and the Council's financial statements.

- 11.11. However, under IFRS, an entity could be treated as a subsidiary based on the Council's ability to control the entity as opposed to the old standards which required actual control taking place. More organisations may therefore need to be consolidated into the Council's group accounts.

- 11.12. The outcome of this is that there is a possibility that Alexandra Park and Palace Charitable Trust will be required to be consolidated into the Council's group accounts.

- 11.13. External and independent advice from consultants Deloitte's on the accounting treatment for potential consolidation has been received and is being reviewed.

- 11.14. The review is ongoing and a final conclusion has not yet been reached.

12. Summary

- 12.1. The requirements of IFRS are being implemented and the Council is on track to produce IFRS compliant accounts for 2010/11. The Council will continue to work closely with external audit throughout this process. This report has outlined some of the ongoing activities and actions in order to achieve this.

13. Recommendation

- 13.1. That the progress to date to ensure full IFRS implementation be noted.