

London Borough of Haringey

Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

March 2011



Introduction and background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based in International Financial Reporting Standards (IFRS) rather than the current UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11.

Terms of engagement

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010/11 final accounts audit.

The arrangements review is primarily focused on 1 April 2009 restated balance sheet values, which will be required to report the 1 April 2010 opening balances for 2010/11. This work has been undertaken as part of our planning for the 2010/11 financial statements audit.



Adequacy of arrangements

Basis of assessment

This report details the findings of our review. For each significant balance sheet item we have considered the Council's arrangements against each of the following questions:

- Are the Council's arrangements for identifying and reporting their accounting policies adequate?
- Are the Council's arrangements for identifying and reporting their adjusted UK GAAP values at 1 April 2009 adequate?
- Are the Council's arrangements for reporting IFRS values adequate?
- Are the Council's arrangements for restating their notes to the balance sheet adequate?
- Are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green	Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.
Amber	Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Our findings are detailed on pages 3 and 4 of this report. Where items and areas have been assessed as amber or red we have discussed these with officers and as appropriate made recommendations on page 5.

Adequacy of arrangements - Findings

Assets

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	AMBER	AMBER	AMBER	AMBER	GREEN	AMBER
Investment properties	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Trade & other receivables	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Investments	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Cash & cash equivalents	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Assets held for sale	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER

Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Bank overdraft	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Current borrowings	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Other current liabilities	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Non-current borrowings	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Non-current provisions	AMBER	AMBER	AMBER	AMBER	GREEN	AMBER
Non-current other liabilities	AMBER	GREEN	AMBER	AMBER	GREEN	AMBER
Taxpayers equity	N/A	N/A	N/A	N/A	N/A	GREEN

Adequacy of arrangements - overall arrangements

Overall conclusion

We have assessed the overall arrangements that the Council has in place to restate the balance sheet at 1 April 2009 as being adequate to provide not materially misstated amounts for the balance sheet restatement.

The Council has planned the approach with the focus on the key risk areas and a higher level review of other balance sheet areas. The Council has prepared and followed a detailed Implementation Plan which has been reviewed and monitored by the Audit Committee.

All except one balance sheet item has been rated amber. The key findings to support our assessment of amber have been noted as follows:

Accounting policies

The Council has begun to prepare IFRS compliant accounting policies. However, these were not ready at the time of our review and therefore the Council has been rated amber in all areas in relation to accounting policies. This has also impacted on the overall rating which is amber for all areas except taxpayers equity.

Supporting notes

The Council has put in place arrangements to capture additional financial reporting information and considered the impact of adoption of the standards for each material category within the supporting notes. However the council has not produced the supporting notes for the balance sheet and is therefore rated amber.

IFRS values

The Council was able to evidence that they had considered whether the transition to IFRS had an impact on the values reported in the balance sheet and had working papers to support the changes.

We reviewed the Council's arrangements for reviewing its leases and accumulated absences provision (holiday pay accrual). The Council's has engaged with Property services to identify its leases. A de-minimus level of £50k has been agreed with us and the Council reviewed those lease agreements above this level against criteria included in IAS 17 in order to determine if the lease was an operating or finance leases. This analysis was completed by the IFRS Project Team. This appears to be a reasonable approach to reviewing leases.

The Council has used CIPFA's model to calculate the accumulated absence provision for teaching staff and based on information from the payroll system and information returned from managers on staff's leave and flexi days, extrapolated and calculated the amount to accrue for non-teaching staff. The Council's methodology for calculating its accumulated absences provision appears to be reasonable.

We will review the working papers in detail as part of our work on the restatement of the 2009/10 accounts.

Adequacy of arrangements - overall arrangements

As the accounting policies were not available at the time of our review, we were not able to check that the changes were consistent with the accounting policies and therefore all areas have been rated as amber.

Findings relating to specific balance sheet items have been included below. Recommendations have been raised in the action plan for management to address the above findings to ensure that the Council prepares accounts that are IFRS compliant with comparatives for 2010/11. We also identified some non-material adjustments that the Council has agreed to amend.

Adequacy of arrangements - amber ratings

Balance sheet item

Finding and reason for rating

Next steps

Property, plant & equipment

The Council has identified that there are assets that did not have revaluation reserves, that should be written off from the revaluation reserve into the income statement. This is an amendment to the UK GAAP accounts and has not yet been made. Therefore UK GAAP values has been rated amber.

The Council should ensure all UK GAAP adjustments are made as part of their preparation of IFRS accounts.

Investment properties and assets held for sale

The Council reclassified surplus assets to investment properties. This was due to the retrospective application of IFRS rules, whereby all assets not sold within one year were reclassified as PPE. This adjustment will need to be reversed as this retrospective application of IFRS rules is not allowed under the guidance.

The Council should ensure that it correctly classifies investment properties and surplus assets as required under relevant International Accounting Standards.

Adequacy of arrangements - amber ratings

Balance sheet item	Reason for rating	Next steps
Non-current provisions	This area has been rated as amber. Under IFRS, provisions should be disclosed between current and non-current provisions, however the Council has disclosed all provisions as non-current.	The Council should review its provisions and correctly disclose them between current and non-current provisions as required under IFRS.
Non-current liabilities	This area has been rated as amber as the Council has included the accumulated absences provision as a non-current liability instead of a current liability as it is due within one year.	The Council should ensure the accumulated absences provision is correctly disclosed as a current liability.

Overall conclusion and recommendations

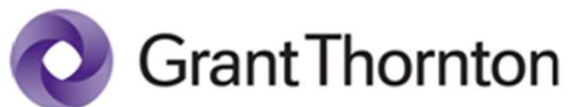
The results of our work indicate that the Council's overall arrangements for IFRS restatement have been adequately planned, focusing its resources on the key risk areas.

Overall at this stage we are happy that the processes undertaken by the Council have enabled management to highlight the accounting, explanatory, and presentational adjustments required for restatement to IFRS. Understandably there is more work to do and we will be working closely with the Finance team in their preparation of fully IFRS accounts for 2010/11.

Recommendation	Priority	Responsibility	Agreed	Management comments	Date
The Council should draw up the accounting policies under IFRS as soon as possible to allow sufficient time for a technical review prior to approval.	High				
The supporting notes and main statements should be produced as soon as possible to enable us to provide comments before the Council produces its 2010/11 accounts.	High				

Overall conclusion and recommendations - continued

Recommendation	Priority	Responsibility	Agreed	Management comments	Date
The Council should ensure all UK GAAP adjustments are made as part of their preparation of IFRS accounts.	Medium				
The Council should ensure that it correctly classifies investment properties and assets held for sale as required under relevant International Accounting Standards.	Medium				
Provisions are required to be reclassified between current and non-current provisions. They have currently all been included within current provisions.	Medium				
Accumulated absences provision - this has been included in non-current liabilities and should have been included within current liabilities.	Medium				



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