



# AUDIT AND PENSIONS COMMITTEE

17<sup>th</sup> February 2011

CONTRIBUTORS

Subject: IFRS UPDATE

WARDS  
All

FCS  
ENV  
IFRS Project Team

A briefing on IFRS compliance was brought to the Audit Committee in March 2010. This report provides an update on the work which has been undertaken since then, key issues and achievements against deadlines.

## RECOMMENDATION:

To note the contents of this paper

## LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	IFRS project working papers	Caroline Wilkinson x1813	FCS

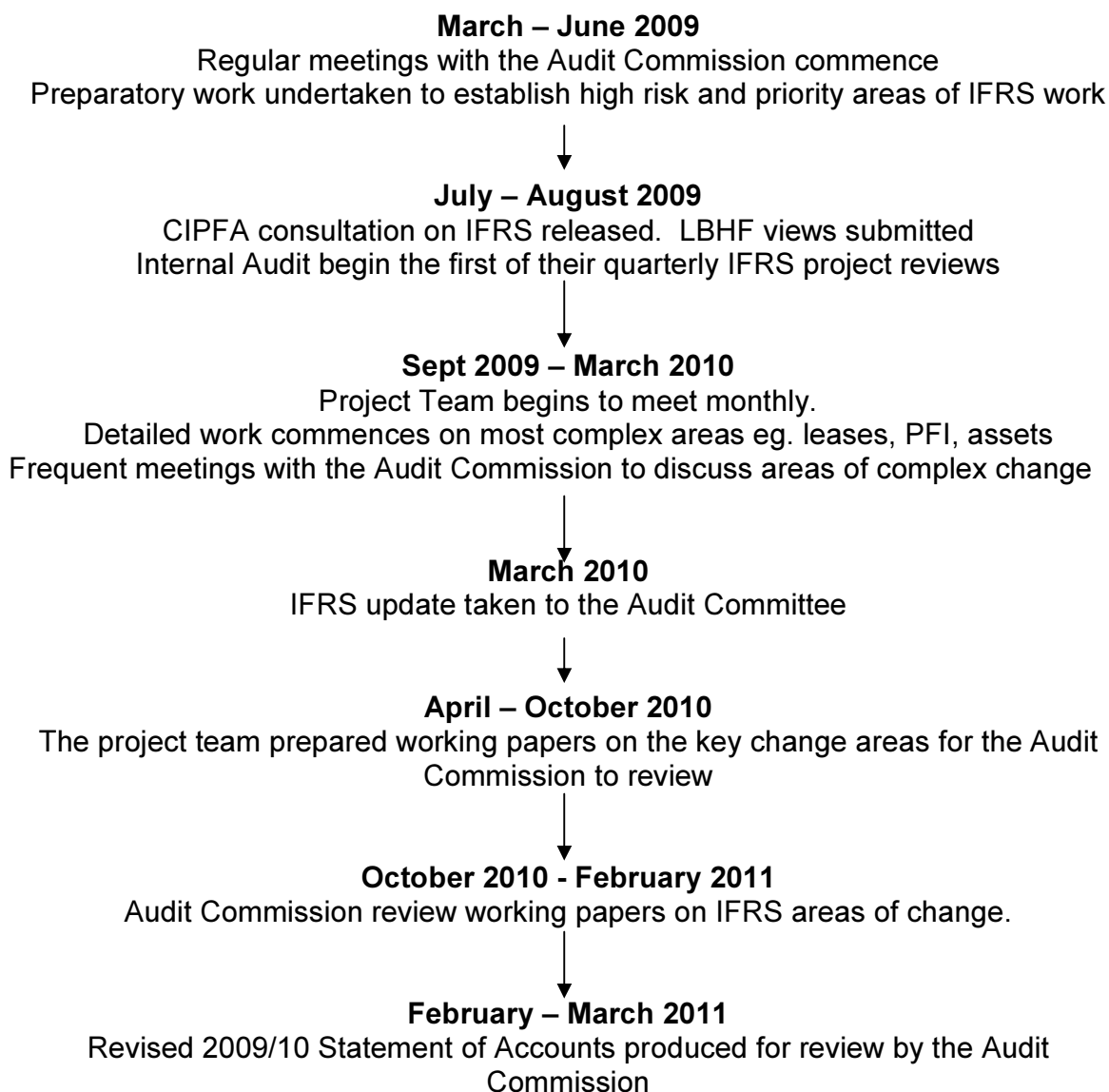
## **1 Summary of Key Issues**

- 1.1 The IFRS project is on track to produce re-stated 2009/10 accounts by the 31<sup>st</sup> March 2011.
- 1.2 It is expected that the IFRS changes will have no cash effect on LBHF's accounts. Adjustments to the accounts will be written back out so that they do not affect the bottom line
- 1.3 The Audit Commission have worked closely with the IFRS project team to discuss the treatment of complex changes
- 1.4 No additional costs have been incurred by the project, as all work has been carried out by existing staff and systems
- 1.5 It is proposed that no further specific update is brought to the Audit Committee about IFRS. The IFRS changes will be incorporated into the 2010/11 Statement of Accounts and therefore a review of IFRS implementation will be incorporated into reports on the 2010/11 closure process.

## **2 Background**

- 2.1 Public sector organisations are required to adopt IFRS when producing their year end statement of accounts, to bring them in line with private sector standards and facilitate the production of Whole of Govt Accounts.
- 2.2 The NHS are required to implement the changes for their 2009/10 accounts, whilst local government must implement IFRS for the 2010/11 accounts. However, as the balance sheet requires prior year comparators, authorities will have to recalculate 2009/10 figures on an IFRS basis too.
- 2.3 CIPFA have been keen to ensure that IFRS changes don't have any real cash effect on Council Tax levels, and therefore they have released their own version of the IFRS code. This means that whilst some IFRS changes are to be implemented fully, others have been adapted significantly.

### 3. Revised IFRS Timeline



3.1 This timeline differs to the original IFRS timeline in that the original timescale stated the revised 2009/10 Accounts would be produced by December 2010, for review by the Audit Commission. The revised timescale shows the revised 2009/10 Accounts being ready for review by March 2011. The reasons for this delay are:

- CIPFA did not release the practitioners guide until the 20<sup>th</sup> December 2010. The practitioners guide provides the detail and examples of how the IFRS changes should be worked through the Accounts. Therefore, although general guidance on IFRS changes had been released prior to December, there was insufficient detail to produce a revised set of Accounts.

- A key member of the IFRS project team left the authority in September 2010. An alternative resource has since been allocated to pick up this area of work.

#### 4 Key IFRS Issues

The table below gives details of the key IFRS project issues:

Key Area of Change	Work Undertaken	Risks / Issues	Status	Actions
Leases	<p><b>Implied Leases</b> - Work on calculating implied leases for areas where other organisations use assets to provide LBHF services, eg. HFBP, Serco was completed July 2010, and has been passed to Audit Commission for review</p> <p><b>Review of LBHF Leases</b> – Work on existing LBHF leases, to use new criteria to assess whether they are finance or operating leases. Non-property leases work was completed by October 2010 and passed to Audit Commission for review.</p>	<p>There have been some delays in extracting property lease information from the Valuers system.</p> <p>This has now been addressed with the Environment senior management team, and the required leases information is being provided.</p>	<b>Amber</b>	The IFRS project manager attended the Environment DMT in January 2011 to discuss this directly with the AD for Valuers and the Director of Environment. A commitment was given to return the required data by the deadlines agreed in Feb and March 2011.
Re-stating Accounts	<p>Significant preparatory work has been undertaken on the new format for the Accounts, presentational requirements and disclosure notes. This has also been incorporated into the 2010/11 closing preparation.</p> <p>The CIPFA practitioners guide is now available</p>	The only risk to this area is if other IFRS workstreams are delayed in re-calculating their figures.	<b>Green</b>	<p>Preparation work has been undertaken to understand the changes to Account formats, presentation and disclosure of figures.</p> <p>Resource is allocated to prepare the re-stated Accounts in</p>

	and work is being undertaken to map out how all IFRS figure changes would work their way through the Accounts			February & March 2011.
Group Accounts	<p>Work has been undertaken to analyse the IFRS changes relating to incorporating associated organisations and joint ventures into consolidated group accounts.</p> <p>A paper has been prepared for discussion with the Audit Commission, which proposes that LBHF should not need to produce group accounts again under IFRS.</p>	<p>A significant amount of work has been undertaken to analyse the IFRS rules in this area, and prepare documentation for discussion with the Audit Commission.</p>	<b>Green</b>	Documentation and meetings have been prepared for discussion with the Audit Commission
Fixed Assets & PFI	<p><b>Fixed Assets</b> – No changes have been made to the valuation methodology for fixed assets, and no IFRS changes are being applied retrospectively.</p> <p>Therefore, the most significant change for fixed assets is the introduction of component accounting. A new policy on component accounting for general fund properties has been discussed and agreed with the Audit Commission, and will be included in the Council's accounting policies for</p>	<p>Working papers relating to fixed assets and other non-current assets have already been reviewed by the Audit Commission, and no significant issues were raised as a result of this review.</p> <p>However, the Audit Commission need to see the figures re-stated in the 2009/10 accounts before they can give a final opinion on</p>	<b>Green</b>	The only remaining actions in this area are to present the re-stated asset figures in the revised 2009/10 Accounts for Audit Commission review, and to develop and agree a component accounting policy for housing stock once CIPFA guidance has been released.

	<p>the 2010/11 closedown. CIPFA guidance on component accounting for housing stock is still awaited.</p> <p><b>PFI</b> – IFRS changes were introduced into the SORP last year as part of the 2009/10 closing process. Therefore, these changes have already been implemented and audited.</p>	these changes.		
Employee Benefits	<p>Work has been undertaken to collect sample data for bonuses, employee leave and flexi carry over, for the end of 2008/09 and 2009/10. Accrual figures have been calculated using this data.</p> <p>The sampling methodology which is used was discussed and agreed at an early stage of the process.</p> <p>Work is currently being undertaken to calculate the accrual for teaching staff. These figures are calculated using a formula rather than sampling.</p>	<p>Work has been completed on the time-consuming exercise of collecting year end sampling data. Remaining calculations are based on agreed formulae.</p> <p>There is no overall financial impact from this accrual.</p>	<b>Green</b>	A small amount of further work needs to be completed on the teacher's accrual. A resource has been allocated to complete this work in February 2011.

## **5 Financial Implications**

- 5.1 All work on IFRS implementation has been carried out by LBHF staff in addition to their regular duties. No costs have been incurred on consultancy.
- 5.2 Whilst implementing the IFRS changes in the re-stated 2009/10 and 2010/11 Accounts will significantly alter figures, there will be no real cash impact on the bottom line of the revenue account or balance sheet.
- 5.3 The only significant area where IFRS changes may have an impact in the future, relates to the categorisation of finance and operating leases from 2010/11 onwards. If any new lease arrangements are classified as finance leases the resulting income stream from those leases would have to be treated as a capital receipt rather than a revenue income. This will not impact on leases which existed before 2010/11, but will apply going forward.
- 5.4 Discussions have been held with the Valuers team to explain the implications of this policy when they are entering into new lease agreements, and templates have been provided to ensure that the correct information is collected which will allow finance to make this assessment of leases early on.

## **6. Comments of the Director of Finance and Corporate Services**

- 6.1 The IFRS work has been carried out with no additional cash cost to LBHF, as all work has been undertaken by existing staff and IT systems.
- 6.2 The accounting changes being introduced by CIPFA will have no impact on the bottom line of the Accounts and council tax levels.

## **7. Comments of the Assistant Director (Legal and Democratic Services)**

- 7.1 There are no legal implications

## **8. Updates for the Audit Committee**

- 8.1 It is proposed that no further specific update is brought to the Audit Committee about IFRS. The IFRS changes will be incorporated into the 2010/11 Statement of Accounts and therefore a review of IFRS implementation will be incorporated into reports on the 2010/11 closure process.