INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ITEM 10

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REASON FOR REPORT

From 2010/11, Local Authorities' Statement of Accounts will be required to be prepared under an IFRS-based Code of practice on Local Authority Accounting, This is part of a wider public sector move to align accounting standard for private, public and international entities incorporating accounting standards developed following accounting scandals such as Enron.

To enable the council to comply with the implementation timetable, planning in Hillingdon started formally in July 2009.

As the body charged with governance of the authority's Statement of Accounts, it is relevant that the detail of the project plan to implement the transition is reported to Audit Committee and that Committee are regularly updated with progress reports.

This initial report explains how Hillingdon are approaching this task and the work undertaken to date.

INFORMATION

The transition to IFRS is a challenge to the whole organisation and should not be underestimated. IFRS is not just about financial reporting, it also impacts on resources, budgets and systems and processes.

Timetable

The initial planning for the transition to IFRS in Hillingdon is well underway as local authorities will be required to produce their accounts fully on an IFRS basis for the year 2010/11. However, to be ready for full implementation, we will have to produce the accounts for 2009/10 on an IFRS basis to provide comparator figures and additionally restate the closing Balance Sheet for 2008/09 to provide the opening figures for the 2009/10 accounts.

Main Difference of IFRS

The main areas where IFRS is expected to be different are:

- Fixed assets – IFRS requires fixed assets to be held at 'fair value' as opposed to current requirement of 'current value'. There may be considerable changes to the valuation of Infrastructure assets and further reclassification of certain asset categories. A major challenge is to keep more detailed componentisation of assets and depreciate over their differing lives (eg. the roof of a building may need to be valued and depreciated separately to the rest of the building)

- Leases – IFRS requires leases on land and buildings to be accounted for and disclosed separately. Difference on the definition of operating and finance leases, leading to potential reclassification of operating leases to finance leases and hence need to move to balance sheet.
- PFI – now all required to be on balance sheet and accounted for under IFRIC12 (Service and Concessions)
- Contracts- require review and separation of any unconnected embedded derivatives.
- Operating Segments – the accounts are required to be reconciled from Financial Reporting best value structure to the Management account structure.
- Employee benefits – IFRS requires disclosure of the accrual of untaken holiday pay and flexitime.
- Certain notes disclosures.

Transition Project

We have appointed Pricewaterhouse Coopers to assist in the conversion process. Whilst our external auditors Deloitte could have assisted us with the initial impact assessment, they would not have been able to provide on going advice throughout the transition, due to a conflict of interest. Therefore, with Deloitte's agreement and following a selection process, PwC were selected to give assistance for the duration of the project.

During July they undertook an impact assessment of IFRS on Hillingdon's accounts and they ran a very successful workshop for the Council on 24 July. The workshop covered all aspects of accounting under IFRS, following which, PwC produced a comprehensive and detailed report, advising on the various tasks to be undertaken as part of implementation. From this report we have developed a project plan, which is attached for reference at Appendix A.

One of the initial tasks, following completion of the audit of the 2008/09 accounts, will be to restate the 2008/09 balance sheet.

A further progress will be brought to Committee in December.

APPENDIX A

Project: Implementation of International Financial Reporting Standards	
Programme (where applicable):	
Project manager: Harry Lawson	**Telephone: 01895 556578**
Project sponsor: Nancy Le Roux	**Telephone: 01895 250353**
Group Project Board reported to: Audit Committee	

Project purpose

Project definition

To implement International Financial Reporting Standards for LB Hillingdon Council's Final Statement of Accounts by 2010/11, as per statutory requirements.

Background information

The government has been driving forward an agenda to improve consistency and comparability between the public sector and private sector's accounting statements and are also keen to follow private sector best practice incorporated following accounting scandals such as Enron. The move to IFRS is to unify accounting practices across international, public and private sector entities.

International Financial Reporting Standards (IFRS), already applicable in the private sector, were introduced for Central Government and the NHS' accounting statements in 2008/09.

These will be introduced to Local Government in 2010/11. However, opening comparators will be required in IFRS format, hence the 2009/10 accounts are required to be restated under IFRS (and hence closing balances for 2008/09 will need to be restated). The Whole of Government Accounts (WGA) submission in June 2010 will also have to show the 2009/10 accounts on an IFRS basis.

The transition to IFRS affects a wide range of processes and systems which will need to be reviewed to ensure correct figures under IFRS can be produced. Furthermore, where IFRS standards may not apply, the Council needs to demonstrate that it has undertaken significant work to show it has considered the IFRS implications, before deciding on any action/inaction.

Key areas impacted by IFRS include: Fixed Assets, PFI & Leases, Contracts (embedded derivatives), segmental reporting and Employee Benefits.
Links to other projects The new treatment of leases and Private Finance initiatives (PFI) under IFRS, will potentially have implications for the Council's existing Barnhill PFI with Jarvis, and the Building Schools for the Future programme. The necessity to account for and accrue holiday pay and flexi time will impact the ResourceLink HR system. Contracts will have to be analysed for any underlying derivatives, and their implications analysed under new IFRS rules. This will impact procurement processes and require review of the contract register. New rules on valuations and component depreciation will require input from the estates valuation team in order to meet IFRS requirements. Fixed Asset registers systems (IPF) need to be compatible with IFRS requirements.
Business case Implementing IFRS for 2010/11 is a statutory requirement.
Business benefits Although IFRS is required by statute, there are a number of benefits for the organisation from undertaking the work required for IFRS. Contract Analysis – The requirement to analyse every major contract the Council has entered into, will require an up-to-date and comprehensive contract register to be maintained. Contracts will also be scrutinised individually, and this will act to improve controls and value for money procurement. Leases – Reviewing and analysing all leases will provide a better awareness as to all the leases the Council is entered into, and a scrutiny of their benefits and costs. HR System – IFRS requires information on both annual leave data and flexi time. Producing this may enhance control over these areas, and allow review of implications of flexi arrangements and impact of carry-over at year-end. Asset Management – A greater focus on looking at individual components within assets will better reflect the actual costs of running and replacing an asset. It will also improve the management of the assets, providing greater detail on components that constitute an asset.

Statement of Accounts – Following IFRS, the Final Statement of Accounts will be prepared on the same basis as the private sector and the rest of the public sector, improving comparability and consistency.

Project planning

Key deliverable & Acceptance Criteria

September 2009 – Obtain information required to restate balance sheet

Employee benefits
Review of existing leases and arrangements
Breakdown of Operating Segments Confirmed
Review Financial Instruments and Embedded Derivatives
Review potential Group/Joint Ventures/Associates
Related Party Disclosure work
Property, Plant & Equipment Changes
Review PFI
Stocks & WIP

October 2009 – Skeleton IFRS Accounts developed

Skeleton Main Accounts
Financial Instruments and Notes
Cash flow Statement Adjustments
Segmental Reporting Notes
Group Accounts

December 2009 – Restate 1 April 2009 Balance Sheet

Restate Financial Statements
Review Accounting Policies in light of IAS8

March 2010 – Systems & Procedural changes implemented and tested. Restated Balance Sheet Audited.

Resources and Systems arranged for new Fixed Asset Arrangements, including component accounting and valuing infrastructure assets
HR systems ready for Employee Benefit information
Contract register updated with derivates noted
Leases register up to date, with operating/finance lease distinction

Review and implement latest IFRS guidance on Borrowing Costs and Government Grants

June 2010 – Whole of Government Accounts (WGA) prepared under IFRS

December 2010 – 2009/10 Accounts Restated

Restate Financial Statements

March 2011 – Restated 2009/10 accounts audited and 2010/11 accounts under IFRS.