

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Contact: Nancy Leroux
Telephone: 01895 250353

REASON FOR REPORT

As reported in September, 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 standards 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 report follows the introductory report in September and details the progress Hillingdon has made 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

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.

Progress Update

The project plan, developed following the workshop held by Pricewaterhouse Coopers during, is on track and the key areas of impact under IFRS, together with Hillingdon's progress to date, have been detailed below:

IFRS Category	IFRS Impact	Progress to Date
Fixed Assets	IFRS requires fixed assets to be broken down into their components as they are replaced, prospectively from 1 st April 2011, if the amount is financially material when considering the overall value of the property (e.g. the roof of a building may need to be valued and depreciated separately to the rest of the building). Investment Properties and Assets Held for Sale also need to be reviewed against new IFRS definitions.	Updates have been made on the Oracle system, and discussions held with the Valuations team, to prepare for valuing components of assets. Investment Properties and Assets Held for Sale have been reviewed and reclassifications identified as required.
Leases	IFRS requires leases on land and buildings to be accounted for and disclosed separately. There is also a difference on the definition of operating and finance leases, leading to potential reclassification of operating leases to finance leases, and hence the need to move them to the balance sheet.	Land, Buildings and Vehicle leases have been reviewed, and identified for reclassification as required. Work is on going to identify and investigate additional arrangements that may potentially contain a lease, and categorise them accordingly.
PFI	Now all required to be on balance sheet and accounted for under IFRIC12 (Service and Concessions)	Deloitte have confirmed that the Council's PFI has already been treated correctly under IFRS, and no further action is required in this regard for restating the April 2009 Balance Sheet.
Contracts	Require review and separation of any unconnected embedded derivatives.	The contracts register is being reviewed to identify any embedded derivatives, which have no relation to the subject of the contract (these are very rare in Local Authorities). This is not expected to have any impact on the restated April 2009 Balance Sheet.

Operating Segments	The accounts are required to be reconciled from Financial Reporting Best Value structure to the Management Account structure. This will form a new note to the accounts.	This note has been completed for 2008/09 in line with the draft IFRS Code. Further work may be required in this area as a result of the finalised IFRS Code of Practice, to be published in mid December 2009
Employee Benefits	IFRS requires disclosure of the accrual of untaken holiday pay and flexitime.	Flexi leave data has been collected for 30% of staff on flexi time contracts, with at least 5% representation from each of the 6 Council's service areas. This provides sufficient information to calculate the Flexi Leave accrual. Regarding annual leave, leave carry-forward for all Hillingdon staff as at 1 April 2009 has been obtained. A calculation has also been performed to calculate the leave carry-forward for staff in schools.

Restatement of Balance Sheet

The restatement of the balance Sheet is scheduled completion by the end of December. Whilst we have made good progress on this, some final guidance is still awaited to allow this task to be fully completed. In particular, the publication of the IFRS Code of Practice in mid December, which will clarify outstanding issues on asset re-classification and the annual leave accrual.

A further report will be brought to audit committee in March 2010.