

COMMITTEE Audit Committee	DATE 30 th March 2010	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO. 5.6
REPORT OF: Chris Naylor - Director of Resources ORIGINATING OFFICER(S): Alan Finch – Service Head, Corporate Finance		TITLE: Changes to Local Authority Financial Reporting Requirements <i>Ward(s) affected:</i> All		

1. SUMMARY

With effect from the 2010/11 financial year, the authority is required to adopt International Financial Reporting Standards. These are being introduced across the public sector in the UK to ensure that reported results are consistent with international standards applying to the private sector and in other countries across the World. The main outcome of this will be that accountants from any sector will be able to understand and comment upon local authority accounts, which will improve understanding and scrutiny. This report informs Committee of the progress of IFRS implementation.

2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1. Note progress towards meeting the International Financial Reporting Standard (IFRS).

LOCAL GOVERNMENT ACT, 1972 (SECTION 100A) **LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

Brief description of "background papers"

Name and telephone number of holder and address where open to inspection

Alan Finch (Tel 0207 364 4915)

3. BACKGROUND

In June, officers reported on the requirement for the Council to adopt International Financial Reporting Standards (IFRS). This report provides an update on the requirements and the Council's progress towards meeting them.

4. INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

4.1 With effect from the 2010/11 financial year, local authorities will be required to prepare their financial statements in accordance with the International Financial Reporting Standard (IFRS). This replaces the existing standards and the Generally Accepted Accounting Code of Practice for the UK (UKGAAP). IFRS, which has applied to Companies for some years, has already been introduced in central government and the NHS and the purpose is to have a single standard upon which all major organisations throughout the world are required to report. Adoption is mandatory for local authorities.

4.2. The IFRS introduces many changes to the way results are reported, but the main changes which will make a noticeable difference to the way information is used are:

- Increasing the level of detail required in reporting the valuation of **fixed assets**.
- Bringing assets procured through **PFI** onto the balance sheet.
- Enhancing the level of information required to be reported on **leases and contracts**.
- Providing more information in the accounts which relates back to Services and Directorates, so that the **performance against budget** will become clearer from the accounts.
- Increasing the level of reporting required relating to **employee benefits**.

It is understood from experience elsewhere that the changes are likely to increase the size of the accounts by about 50%.

4.3. As the IFRS is introduced fully in 2010/11, it will be necessary to state the current year's (2009/10) accounts in IFRS terms as well as in accordance with existing standards.

4.4. The project began in December 2008 but has been affected by staff changes. Initially the authority was ahead of most others in responding to IFRS but we are now among the majority of authorities. The authority remains on schedule to complete the conversion in time for the necessary deadlines. The table at **Appendix A** sets out the current status of the project in more detail.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1 The comments of the chief financial officer are incorporated within this report of which he is the author.
- 5.2. There are additional costs incurred in adopting IFRS, both in relation to the project and to maintain processes and systems and continue to report on the new basis. These will need to be contained within existing resources.

6. RISK MANAGEMENT

- 6.1 There are no specific risk management implications.

7. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

- 7.1. There are no legal implications arising out of this report.

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 8.2. The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to question the auditor. Details of these rights are publicised in local newspapers at appropriate stages.

9. ANTI-POVERTY CONSIDERATIONS

- 9.1 There are no specific anti-poverty implications arising out of this report.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 10.1 There are no SAGE implications arising out of this report.

APPENDIX A

INTERNATIONAL FINANCIAL REPORT STANDARDS PROJECT - PROGRESS REPORT		
Issue	RAG Status	Explanation
Contracts	AMBER	All major contracts must be reviewed to ensure that clauses which involve transfer of assets or risk are properly accounted for.
Leases	AMBER	IFRS changes the rules which differentiate between a finance lease and an operational lease. All major leases must be reviewed to ensure they are properly classified
PFI	GREEN	IFRS will change the accounting arrangements for PFI, bringing assets obtained through this route onto the authority's balance sheet.
Employee Benefits	AMBER	The new accounting rules require authorities to value and account for liabilities in relation to non-financial staff benefits. The most obvious example is where staff carry forward leave at the end of financial year to be taken in a later year, this represents value owed to the member of staff to the authority.
		Progress to Date 245 contracts of over £250,000 a year in value have been identified. Documentation for around two-thirds of these has been obtained and further steps are being taken to obtain the rest. 304 leases have been identified and documentation has been obtained for around half. Further steps are being taken to obtain the rest. The authority has three extant PFI schemes; two relating to schools and one relating to the Barkantine estate. Asset valuations have been obtained and the necessary accounting transactions are being identified. Data was collected on staff leave carried forward at the end of 2008/09 and a repeat exercise is being undertaken at the end of the current financial year.

Infrastructure	AMBER	The rules on valuing infrastructure assets are changing. For example in future the road network must be assessed according to the width of roads and their underlying fabric as well as road length.	Guidance was published on 19 th March and discussions are in hand with Highways & Transportation to ensure the relevant information can be obtained.
Component Accounting	RED	IFRS requires future works to components of assets (eg rooves, boilers etc) to be separately valued and accounted for.	This will apply from April 2010. A plan has been established for undertaking this wo.
Segmental reporting	AMBER	Expenditure and income will need to be reported by Directorate by Directorate in future as well as by standard headings.	This information is already available in management reports.
Training	GREEN	Training of accountancy staff in all Directorates and selected others, notably Property Management staff, is necessary to embed IFRS	Training has been undertaken in the first part of March 2010.
Restatement of Balance Sheet	AMBER	The balance sheet as at 1 st April 2009 is required to be restated on IFRS principles.	This has been delayed beyond the original timetable and will be undertaken by mid April 2010.