

# London Borough of Barnet

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

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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 United Kingdom Generally Accepted Accounting Practice (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, except in regard to the opening balances in the financial statements for 2010/11.

Our work has taken the form of an arrangements review intended to provide some timely 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 was scheduled by mutual agreement to begin in December 2010 and testing has taken place during February and March 2011. We are working with management to complete this work by the 25 March 2011. This work is being completed in advance of the anticipated 2010/11 final accounts audit.

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

Our assessment of the Council's arrangements reflects a 'snapshot' of performance, made at the time of performing our work in the middle of February 2011.

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:

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

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

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment						
Investment properties						
Intangible assets						
Non-current investments						
Non-current trade & other debtors						
Non-current other assets						
Inventories						
Trade & other debtors						
Investments						
Other current assets						
Cash & cash equivalents						
Assets held for sale						

# Adequacy of arrangements - Findings

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other creditors	●	●	●	●	●	●
Bank overdraft	●	●	●	●	●	●
Current borrowings	●	●	●	●	●	●
Current financial liabilities	●	●	●	●	●	●
Current provisions	●	●	●	●	●	●
Other current creditors	●	●	●	●	●	●
Non-current trade & other creditors	●	●	●	●	●	●
Non-current borrowings	●	●	●	●	●	●
Non-current financial liabilities	●	●	●	●	●	●
Non-current provisions	●	●	●	●	●	●
Non-current other liabilities	●	●	●	●	●	●
Reserves	●	●	●	●	●	●

# Adequacy of arrangements - amber ratings

## Balance sheet item

## Reason for rating

## Next steps

Property, plant & equipment

Whilst there has been a significant amount of work undertaken to review the Council's assets for treatment under IFRS there are some areas where this work is not yet complete.

The main area of ongoing work relates to review of the Council's lease arrangements for classification as either a finance or operating lease.

The Council's finance team is continuing to work with the property team to understand the contractual nature of all lease arrangements. This includes review of the detailed lease classification criteria contained within the accounting standards to determine the appropriate accounting treatment.

As the year end approaches the Council will need to ensure the appropriate valuation methods are applied to the different classes of assets. In doing this the finance and property teams will need to work closely to ensure the requirements of the Code are satisfied.

# Adequacy of arrangements - other findings

## Other findings

### Supporting notes to the accounts

Our work on the Council's arrangements for implementation of IFRS has focused on the balance sheet and the supporting workpapers. However, an additional element of the move to IFRS are the changes required to the statement of accounts template and notes to the accounts.

As the restatement process did not mandate a full set of restated accounts the Council has taken the view that where notes to the accounts are unlikely to change as a result of IFRS these notes have not been provided for review. We consider this to be a reasonable approach. However, where notes to the accounts are expected to change as a result of IFRS we would expect to be able to review and comment on restated notes to the accounts. Although the Council has provided restated notes for some balances we were not provided with a full set of notes at the time of this review. Based on the notes we have received and pending receipt of a complete set we have assessed them as amber at this stage. At this stage, we do not expect issues to arise with the production of the remaining notes.

At the time of our work the Council has begun the process of preparing the full statement of accounts template together with the supporting notes. The Council accepts that there is still some work to be completed in this area prior to preparation of the final accounts and that this work is ongoing.

We recommend that this document is completed prior to the year end to ensure that all required information is identified to enable a prompt and efficient closing process once the final 2010/11 figures are available.

## 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	Management comments	Date
To ensure the property and finance teams work closely with an agreed timetable for provision of information required for IFRS restatement.	Medium	Head of Property & Estates and Head of Finance (SAP Systems, Closing & Monitoring)	Property Services and Finance have been working very closely in recognition of the greater challenges and impact of compliance with IFRS. There are scheduled bi-weekly meetings to ensure the timely monitoring of information required by the teams. It is anticipated that all information required for IFRS restatement purposes will be met before closing of the financial year	March 2011
To complete the statement of accounts template with all required disclosures and notes to the accounts, identifying any missing information.	Medium	Head of Finance (SAP Systems, Closing & Monitoring)	Work is underway by the Closing and Monitoring team to complete the statement of accounts template with all required disclosures and notes to the accounts. Part of this work is pending Grant Thornton agreeing opening balances after their substantive testing and part of this includes identifying any missing information. It is anticipated that this work will be complete by the end of March 2011.	March 2011



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