

<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>24 June 2010</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/34/10/AP/JB</b>
<b>Contact Officer:</b>	<b>Jan Buchanan</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Report on Restated IFRS Opening Balance and PPP Adjustments</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of the report is to present the report by Audit Scotland on the IFRS compliant restated opening balance.

## **2.0 SUMMARY**

- 2.1 The attached report is Audit Scotland's review on the Councils restated balance sheet under International Financial Reporting Standards (IFRS).
- 2.2 Statutory financial statements must be produced for the first time for the 2010/11 accounts and the restated opening balance sheet as at 1 April 2009 is the first step in this transition period.
- 2.3 Inverclyde Council was one of the first Councils in Scotland to present their restated Balance Sheet for audit and has received an excellent report. This is a considerable achievement for the Council.
- 2.4 A representative from Audit Scotland will be in attendance at the meeting in order to address any issues arising from the report.

## **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that members note the contents of this report.

Alan Puckrin  
Chief Financial Officer

# Inverclyde Council 2009/10

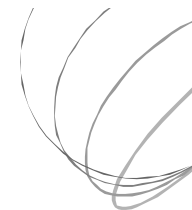
Report on Restated IFRS Opening Balance Sheet & PPP  
Adjustments



May 2010

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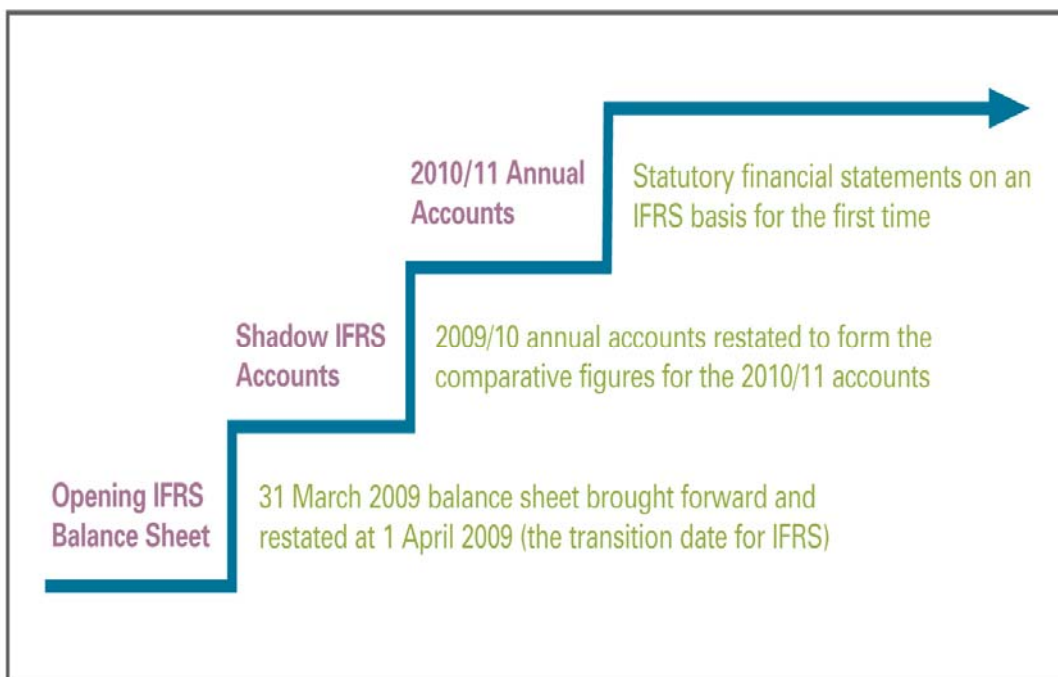
# Introduction

1. The introduction of International Financial Reporting Standards (IFRS) for public sector financial reporting is perhaps the biggest challenge that accountants and auditors have had to face in recent years with a series of complex and resource intensive changes in accounting policy required.
2. In local government, IFRS based changes for financial instruments were introduced in 2007/08, and further changes in respect of Public Private Partnership (PPP) projects have been incorporated in the annual accounts requirements for 2009/10. Full IFRS compliance is required for the 2010/11 accounts and the opening IFRS balance sheet is the first step towards the production of these accounts.

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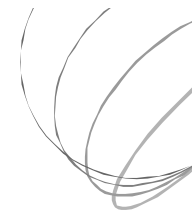
## Exhibit 1 Key IFRS transition milestones

The early production of an opening IFRS balance sheet is the key to a smooth IFRS transition



Source: Audit Scotland

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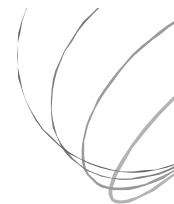


# Timetable

3. There is no formal deadline, in advance of 30 June 2011 for the production of the opening IFRS balance sheet and shadow accounts. However, it is acknowledged good practice to start work on these restatement exercises as early as possible to provide sufficient time to accommodate the work required.
4. Most local authorities aimed to produce the opening IFRS balance sheet in advance of 2009/10 closedown to enable their auditors to review the adjustments in advance of the 2009/10 audit. Inverclyde Council (“the Council”), prepared their opening IFRS balance sheet in advance of our audit of the 2009/10 financial statements and this report summarises the conclusions of our review of it.
5. The Council plan to produce ‘shadow’ or restated 2009/10 accounts later this year and our aim is to review these in the autumn. This will help ensure that the authority has reliable comparatives and a sound foundation for the 2010/11 accounts.

# Scope

6. This review is limited to the opening single entity IFRS balance sheet and does not cover:
  - the group balance sheet
  - accounting policy disclosures
  - the notes to the accounts.
7. The Council is awaiting further guidance from CIPFA on the format and disclosure of notes and accounting policies, and we understand that arrangements are being put in place to obtain appropriate group information for inclusion in the shadow accounts.
8. Accounting policy changes in 2009/10 affecting the opening IFRS balance sheet are considered here but may also be reported separately. Any further issues arising from our 2009/10 accounts audit which impact on the opening IFRS balance sheet will be reported as part of that audit.
9. A further area where there are potential adjustments is the accounting treatment of PPP projects. The Council did not require any adjustments to reflect PPP projects in the opening IFRS balance sheet as the PPP funded school was not open on 1 April 2009. However the school is now open and will need to be reflected in the 2009/10 financial statements and shadow accounts. The Council provided a copy of their PPP accounting model and this was reviewed to ensure the key inputs and outputs could be relied upon.



# Approach

10. In carrying out the review of the restated IFRS balance sheet, we reviewed the presentation of the balance sheet and supporting documentation. This exercise involved reviewing high risk items and assessing whether expected adjustments had been made and whether sufficient evidence had been provided to support the calculation of these adjustments. The high risk items include:
  - leases classifications
  - annual leave accruals
  - treatment of government grants deferred
  - treatment of surplus assets.
11. The review of the PPP accounting model focused on agreeing the key inputs (e.g. unitary charge, operating costs, life-cycle costs, asset fair value, indexation rates and key dates) to the PPP operator's financial mode and on verifying the proposed accounting entries for the 2009/10 financial statements.

# Conclusion

12. The Council took a very proactive approach to the adoption of IFRS and we are pleased to report that this resulted in them providing us with the restated opening balance sheet, PPP accounting model and all supporting documentation prior to the end of the 2009/10 financial year.
13. Throughout the preparation process the IFRS working team engaged well with us in our role as the external auditor and adopted a very transparent and collaborative approach. This helped identify and resolve any issues at an early stage.
14. This approach, the early recognition of the need for good project management and nomination of a project manager (approved by the Policy and Resources committee in July 2009), and the commitment shown by all the officers involved in the project are the predominant reasons why our audit conclusion is that the exercises to restate the opening balance sheet and calculate the required PPP adjustments have been a success. We have reached agreement with the Council on all the required adjustments which means we can provide assurance that the balance sheet as at 31 March 2009 has been brought forward and correctly restated at 1 April 2009 (the transition date for IFRS).



# Looking forward

15. For the present exercise, no group accounts, notes to the main financial statements or associated accounting policies have been provided. The full set of shadow accounts will require the preparation of these elements. The disclosure requirements under IFRS are more onerous than for accounts prepared under UK GAAP. Continued progress will be required in the next few months to prepare for the shadow IFRS.

# Acknowledgements

16. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.