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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>1 March 2011</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/15/11/JB/GJ</b>
<b>Contact Officer:</b>	<b>Jan Buchanan</b>	<b>Contact No:</b>	<b>01475 712225</b>
<b>Subject:</b>	<b>Changes in the 2010-2011 Annual Accounts</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of the report is to give advance notice to Committee of the main accounting changes that will feature in the Council's 2010-2011 Annual Accounts and to advise of progress being made in the preparations for the implementation of International Financial Reporting Standards (IFRS).

## **2.0 SUMMARY**

- 2.1 The Annual Accounts for 2010-2011 will be the first to be prepared by the Council on an IFRS basis. The "rules and regulations" that set out the main requirements for local authorities are contained in the *Code of Practice on Local Authority Accounting in the United Kingdom 2010-2011* also known as *The Code*.
- 2.2 Adoption of the IFRS-based *Code* will result in significant presentational changes to the financial statements and the associated disclosure notes.
- 2.3 Some amounts presented in this year's Annual Accounts will be different from the equivalent figures presented in last year's Annual Accounts as a consequence of the requirement to restate various balances and transaction for prior periods. The two major differences concern (a) the accrual of holiday pay and (b) the recognition as income of capital grants when they become receivable. The Scottish Government has issued regulations that ensure there is no impact of these technical accounting adjustments on the Council Tax.
- 2.4 Finance Services has adopted Project planning methodology to deal with the transition to IFRS. As with any project of this scale, some deadlines have had to be rearranged to deal with circumstances. At present a key stage is nearing completion with the planned submission of the restated comparative figures to external audit in February. Appendix 1 shows the timetable for this stage, and the dates actually achieved. The next stage concerns the usual project planning arrangements for the year-end close-down.
- 2.5 As part of the project management there are regular progress meetings with the external auditors and an audit review at key milestones. The rigorous scrutiny undertaken has avoided a build-up of matters to be resolved. The positive guidance from Audit Scotland has greatly assisted the Council's transition to IFRS.

## **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Committee note the content of this report.

Alan Puckrin  
Chief Financial Officer

#### **4.0 THE CHANGES: FINANCIAL STATEMENTS**

- 4.1 The Local Authority Accounting Code of Practice has been refined since the consultation document that was available at the time of the last report to Committee. The Practitioners' Manual that was published by CIPFA in December 2010 provides welcome and comprehensive guidance on the format and content of the annual financial statements and accompanying disclosure notes.
- 4.2 The Financial Statements are considerably changed and will look quite different from the Accounts in prior years. The accompanying disclosure notes are considerably expanded. The new statements and notes will be explained as part of the normal presentation to the Audit Committee at the time of the approval of the draft Annual Accounts in June.

#### **5.0 THE CHANGES: HOLIDAY PAY ACCRUAL**

- 5.1 Employees receive holiday pay as part of their contracts of employment, entitlement to which is build up as they work for the Council. Under *The Code*, the cost of providing holidays is required to be recognised when employees earn their holiday entitlement. As a result, the Council is required to accrue any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.
- 5.2 The Scottish Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are taken, rather than when employees earn their entitlement to the benefits. Amounts are transferred to a new unusable reserve called the Employee Statutory Mitigation Account until the benefits are used.

#### **6.0 THE CHANGES: GOVERNMENT GRANTS**

- 6.1 Under *The Code*, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund. Existing Scottish Government regulations mean that this accounting change has a neutral effect on the Council Tax
- 6.2 As a result of adopting the accounting policy required by *The Code*, the financial statements are amended as follows:
- The heading in the Balance Sheet *Government Grants Deferred* is removed and the balance transferred to an unusable reserve called *Capital Adjustment Account*.
  - Portions of government grants deferred which were previously recognised as income are removed from the Comprehensive Income and Expenditure Statement.
  - Capital grants are recognised in full when receivable in the Comprehensive Income and Expenditure Statement

#### **7.0 PROGRESS ON IMPLEMENTATION OF IFRS**

- 7.1 The transition to IFRS has presented various challenges in common with all local authorities across Scotland. The Council successfully tackled all of the major challenges so far including leases, PPP and the accrual of holiday pay. The Council approved the IFRS-restated and audited 2009-2010 opening Balance Sheet at its meeting of 24 June 2010. The restatement of the 2009-2010 Principal Statements is now complete and will be submitted for audit in February. There has been no need for additional resources or external assistance.

- 7.2 Finance Services adopted Project Planning methodology to deal with the transition to IFRS. As with any project of this scale, deadlines have had to be rearranged to deal with circumstances.
- 7.3 Officers in other Services were integral in enabling the successful delivery of the project. Involving them right at the start of the project has allowed key targets to be achieved. Property Services valuation team made a huge impact in collating and assessing leases and the development of component accounting.
- 7.4 In addition the careful examination and recognition of revenue and capital grants as soon as conditions have been met has ensured that the skeleton accounts will be completed within the deadline.
- 7.5 During February and March, the financial systems will be refined to support the IFRS reporting, the asset register transition transactions will be posted, and work will progress on component accounting and group accounts.
- 7.6 This stage of the process is nearing completion with the planned submission of the restated comparative figures to external audit in February. Appendix 1 shows the planned dates and the dates actually achieved. The next stage of the project concerns the usual planning arrangements for the year-end close-down.

## **8.0 WORKING WITH OUR AUDITORS**

- 8.1 Generally speaking, the role of external audit is to provide audit services. However, throughout this project external audit have provided a valuable sounding board have on the interpretation of *The Code*. This involves regular meetings and an audit review at key milestones. This rigorous independent scrutiny has avoided a build up of matters for which further clarification is required. The positive guidance and assistance support received during the transition to IFRS, is greatly appreciated.

## **9.0 IMPLICATIONS**

### 9.1 Financial

None. Regulations brought forward by the Scottish Government will ensure that there is no impact on taxpayers or local authorities' budgets.

### 9.2 Legal

None

### 9.3 Equalities

None

### 9.4 Personnel

None

## APPENDIX 1: MANAGING THE CHANGE

### 1.0 THE REVISED TIMELINE

1.1 The timetable presented to the Audit Committee on 05 January 2010 was based upon general guidance issued by CIPFA on reporting milestones and these are shown in the table below. The dates achieved are shown in italics in the right hand column.

1.2 Step	Planned Dates	Achieved Dates
Training for all relevant staff and members	Ongoing from March 2009	<i>Delivered during March and October 2010; Follow-up training in March 2011</i>
Identify any impact on budgets	March to September 2009	<i>September 2009</i>
Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet	September to October 2009	<i>October 2009</i>
Obtain information required to restate 1 April 2009 balance sheet	September 2009 to February 2010	<i>February 2010</i>
Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	September 2009 to March 2010	<i>February 2010</i>
Develop skeleton Principal Statements of Accounts under IFRS	January to February 2010	<i>February 2010</i>
Implement systems and procedural changes	April 2010 to September 2011	<i>Changes to Asset Register in January 2011; Ledger changes planned for March- April 2011.</i>
Restate 2009-2010 accounts in parallel with main 2009-2010 accounts process	June 2010 to December 2010	<i>February 2011; Audit completed in March 2010</i>
Develop skeleton Notes to Accounts under IFRS	December 2010 to March 2011	<i>February 2011</i>
Develop skeleton Principal Statements and Notes for Group Accounts under IFRS	February to April 2011	
Produce 2010 - 2011 accounts on IFRS basis	April 2011- June 2011	