

Report To: Audit Committee **Date:** 28 February 2012
Report By: Chief Financial Officer **Report No:** FIN/14/12/AP/JB
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Subject: Changes in the 2011-2012 Annual Accounts

1.0 PURPOSE

- 1.1 The purpose of the report is to give advance notice to Members of the main accounting changes that will feature in the Council's 2011-2012 Annual Accounts.

2.0 SUMMARY

- 2.1 The Annual Accounts for 2010-2011 will be the second to be prepared by the Council on an International Financial Reporting Standards (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 This year there are far fewer changes to the financial statements and the associated disclosure notes will look much like the previous year. The only major difference this year is accounting for heritage assets. Full compliance is not just an accounting requirement; it is a condition of Museum Accreditation by Museums Galleries Scotland. Such assets must be disclosed separately and included at "fair value". The value to be included in the 2011-2012 accounts will be based on insurance values.
- 2.3 The collections at the McLean Museum and Watt library form the major part of the heritage assets held by Inverclyde Council. The combined collections at this facility number over 42,000 and it is impractical to undertake the valuation of all the items in the collection simultaneously. A rolling programme of valuations has been in place since 2009 to ensure that the insurance provision is kept up to date. Finance Services is working with the Education and Culture Service to ensure the entire collection is covered over a period of no more than ten years, commensurate with cost and practicalities.
- 2.4 As a consequence of this change in accounting policy for heritage assets, the balances and transactions for prior periods require to be restated. Some amounts presented in this year's Annual Accounts will be different from the equivalent figures presented in last year's Annual Accounts. There is no impact upon Council Tax of these technical accounting adjustments.
- 2.5 There are other new disclosure requirements in the notes to the financial statements. One of these concerns "exit packages". This covers redundancy and severance packages whether voluntary or compulsory. The information must be disclosed in a tabular format, grouped in rising bands of £20,000 up to £100,000 and bands of £50,000 thereafter.
- 2.6 New guidance issued may require Inverclyde Leisure to be included into our group accounts as a subsidiary rather than an associate. This will have no impact on the Single Entity Accounts or the Tax Payer but will require more detailed disclosures included into the group accounts.
- 2.7 As an integral part of the project management of the year-end process there are regular progress meetings with our auditors. So far the rigorous scrutiny that we have been through with Audit Scotland and plan to go through with Grant Thornton, has avoided a build-up of matters to be resolved. We greatly value the positive guidance and assistance the management and staff of Grant Thornton have willingly offered in support of the Council's preparations for the Annual Accounts.

- 2.8 There have been calls for accounts to be more understandable from several influential bodies. Corporate reporting is seen by many as an exercise in regulatory compliance rather than a useful communication tool. Within the local authority sector, CIPFA in Scotland is considering whether there is scope for work on simplifying the financial statements.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the content of this report.
- 3.2 It is also recommended that the Committee agree to hold a special meeting of the Audit Committee on Thursday 28 June 2012 to review the unaudited 2011/12 accounts prior to submission to Audit Scotland.

Alan Puckrin
Chief Financial Officer

4.0 THE CHANGES: FINANCIAL STATEMENTS

- 4.1 There were very major changes to the Local Authority Accounting Code of Practice last year and as a result the Financial Statements were very considerably changed and looked quite different from the Accounts in previous years.
- 4.2 This year there are far fewer changes and the financial statements and the associated disclosure notes will look very much like the previous year. The only major difference this year is accounting for heritage assets. A small number of the accompanying notes will be expended slightly. 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 unaudited Annual Accounts in June.

5.0 THE CHANGES:

HERITAGE ASSETS

- 5.1 The major change this year is accounting for heritage assets. A new category of heritage assets will be included within "property, plant and equipment" in the balance sheet. This covers assets defined as "*preserved in trust for future generations because of their cultural, environmental or historical associations*". Examples of heritage assets are museum and gallery work of art, and civic regalia. Such assets must be disclosed separately and included at "fair value". This will require a revaluation normally from cost to replacement cost or market value. The value to be included in the 2011-2012 accounts will be based on insurance values.
- 5.2 The collections at the McLean Museum and Watt library form the major part of the heritage assets held by Inverclyde Council. The combined collections at this facility number over 42,000 and it is impractical to undertake the valuation of all the items in the collection simultaneously. A rolling programme of valuations has been in place since 2009 to ensure that the insurance provision is kept up to date. Finance Services is working with the Education and Culture Service to ensure the entire collection is valued on a rolling programme, commensurate with cost and practicalities.
- 5.3 As a consequence of this change in accounting policy for heritage assets, the balances and transactions for prior periods require to be restated. Some amounts presented in this year's Annual Accounts will be different from the equivalent figures presented in last year's Annual Accounts.

6.0 TERMINATION BENEFITS

- 6.1 There is an expended disclosure requirement for termination benefits in the notes to the financial statements. This is in addition to information currently disclosed and covers redundancy and severance packages whether voluntary or compulsory. The additional information must be disclosed in a tabular format, grouped in rising bands of £20,000 up to £100,000 and bands of £50,000 thereafter. The total cost of packages agreed in each band must be disclosed. This is additional to the reporting requirements for Senior Officers in the Remuneration Report.

7.0 RECLASSIFICATION OF GROUP ACCOUNTS

- 7.1 There is also a possibility that Inverclyde Leisure will need to be incorporated into our group accounts as a subsidiary rather than an associate. This has no impact on the Council's as a single entity or on the Council Tax payer but will require more detailed disclosure notes and a line by line consolidation into our accounts and will involve additional work for both parties.

8.0 OTHER NEW DISCLOSURES

- 8.1 Additional explanatory text will be included in the *Statement on System of Internal Financial Controls* in the first section of the Accounts concerning the role of the Chief Financial Officer. This is to fully comply with CIPFA's guidance in its publication *Statement on the Role of the Chief Financial Officer in Local Government*.

- 8.2 There will be an increased disclosure in the note concerning related parties to amplify information about major transactions with other public sector bodies. There will also be a small amount of extra information about the carrying value of soft loans granted by the Council (where loans are provided at below market value interest rates). The Code also recommends a slightly increased form of words for the Section 95 Officer's certification of the Statement of Accounts by the inclusion of "true and fair view.
- 8.3 2011-2012 will be the first year that the Government's Carbon Reduction Scheme Commitment (CRC) will give rise to a liability to purchase and surrender CRC carbon allowances. CRC allowances are available for purchase at £12 per tonne of carbon dioxide. The Council is exempt from this as its half-hourly electricity consumption for the qualifying period was below the required threshold. This will be regularly reviewed as it is anticipated reductions to the threshold or increase to the consumption through half hourly meters in going forward will require full compliance in future years.

9.0 WORKING WITH EXTERNAL AUDIT

- 9.1 Generally speaking, the role of external audit is to provide audit services. As part of this, the auditors are able to offer a valuable opinion on the interpretation of *The Code*. As part of the project management of the year-end, officers have regular meetings the external auditors. This means that officers can progress to the next stage in the knowledge that we are building on strong and secure foundations. The rigorous independent scrutiny that we have been through with Audit Scotland and are going through with Grant Thornton has avoided a build up of matters for which further clarification is required. The positive guidance and assistance External Auditors have willingly offered in support of the Council's preparations for the Annual Accounts in recent years has been of great assistance to the Council.

10.0 SIMPLIFICATION OF THE ACCOUNTS

- 10.1 There have been calls for more readable accounts from several influential bodies. Corporate reporting is seen by many as an exercise in regulatory compliance rather than a useful communication tool. The Institute of Chartered Accountants of Scotland (ICAS) has undertaken a lead role for the International Accounting Standards Board (IASB) to reduce the volume of disclosures under IFRS. The ICAS report on this project *Losing the excess baggage: reducing the disclosures in financial statements to what's important* recommends a 30% reduction in the length of financial statements.
- 10.2 The Audit Commission for England and Wales has called for councils to make their accounts more understandable and accessible by reducing "clutter" and using summary financial statements to communicate with councillors and residents. In its recently published *Lets be Clear* document, the Commission says some accounts are so complex that even professional local government accountants have difficulty understanding them.
- 10.3 Within the local authority sector, CIPFA in Scotland is considering whether there is scope for work on simplifying the financial statements.

11.0 IMPLICATIONS

- 11.1 Financial
None. Regulations brought forward by the Scottish Government will ensure that there is no impact on taxpayers or local authorities' budgets.
- 11.2 Legal
None
- 11.3 Equalities
None
- 11.4 Personnel
None