
Report To:	Audit Committee	Date:	23 April 2013
Report By:	Chief Financial Officer	Report No:	FIN/29/13/AP/JB
Contact Officer:	Jan Buchanan	Contact No:	01475 712225
Subject:	Changes in the 2012-2013 Annual Accounts		

1.0 PURPOSE

- 1.1 The purpose of the report is to give advance notice to Members of the main changes that will feature in the Council's 2012-2013 Annual Accounts. The report also advises of preparations for an *Annual Governance Statement* that will be incorporated into next year's (2013-2014) Accounts, which will be the subject of a future report to Members.

2.0 SUMMARY

- 2.1 The Annual Accounts for 2012-2013 are 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 2011-2012*, also known as *The Code*.
- 2.2 This year, there is very little substantive change and the financial statements and the associated disclosure notes will look much like the previous year. We have taken the opportunity to critically review the accounts and, where possible, "cut unnecessary clutter" to make the accounts easier to understand. As a result, there will be fewer pages than last year's. With the introduction of single national bodies for police and fire services from 1 April 2013, this will be the last year that the requisitions to police and fire will be shown in our Council's accounts, and a share of their liabilities and assets consolidated into the Group Accounts of the Council.
- 2.3 The other main area of change concerns the existing technical accounting requirement for the figures for land and buildings in the balance sheet to be carried at "fair value", and for a full independent valuation to be conducted at least every five years. The last valuation of all Council owned land and buildings was undertaken during 2007-2008 and accordingly, an up-to-date statutory valuation has been commissioned. There is no impact upon Council Tax of these technical accounting adjustments.
- 2.4 As an integral part of the project management of the year-end process there are regular progress meetings with our auditors. The rigorous scrutiny that we have been through with our auditors 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.
- 2.5 We are currently developing comprehensive arrangements for a *Local Code of Governance*, including the internal control framework, arrangements for risk management, financial governance and accountability. This will lead to the inclusion of a new assurance statement in next year's (2013-2014) Accounts called the *Annual Governance Statement* that will replace the current Statement on the System of Internal Control. This new report will be more wide-ranging and will record our commitment to good governance and demonstrate how we comply with the governance standards recommended by CIPFA for public sector bodies. A report will be submitted to a future meeting of the Committee once proposals are more fully developed.

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 There has been no real change to the *Local Authority Accounting Code of Practice* and as a result the financial statements and the associated disclosure notes will look very much like the previous year. With the introduction of single national bodies for police and fire services from 1 April 2013, this will be the last year that the requisitions to police and fire will be shown in our Council's accounts and a share of their liabilities and assets consolidated into the Group Accounts of the Council. The financial statements and notes will be explained as part of the normal presentation to the Audit Committee at the time of the approval of the Annual Accounts in June.

5.0 THE CHANGES: CUTTING THE ACCOUNTING CLUTTER

5.1 Financial statements have, in recent years, become ever more lengthy and complex, making it harder for readers to fully understand the financial performance of an organisation, the underlying reasons for that performance and the key risks that are faced.

5.2 The statutory accounts of local authorities are undeniably long, covering several primary statements and many pages of notes. Scottish Councils' accounts vary considerably in length from 69 to 180 pages, with a median of 120 pages (source Audit Scotland). Our Council's accounts are 129 pages. Much of the content is explanatory material to support the financial statements.

5.3 The increasing amount of information that is now being included in financial statements has prompted the issue of documents that include proposals and suggestions for 'cutting the clutter', such as the Institute of Chartered Accountants of Scotland (ICAS) publication '*Losing the Excess Baggage*' and the Financial Reporting Council's (FRC) discussion paper '*Towards a Disclosure Framework for the Notes*'. There is an increasing drive for all organisations – including local authorities – to make their accounts easier to understand and reduce unnecessary clutter.

5.4 We have undertaken a substantial review of the financial statements and worked with CIPFA and our auditors to address this problem. This has identified how our accounts could be sharper and more focussed before starting work on the next set. As a result, this year's accounts will be about 30 pages less than last year's. The format of our accounts will remain unchanged as page length does not always tell the whole story and it is our professional judgement that "white space" is integral to the design of our accounts. Respected commentators in Scottish local government finance have praised the design of our accounts and sections from our accounts regularly feature in CIPFA workshops as examples of good practice

5.5 In the longer term, a more fundamental and radical review is required by the standard setters of what financial reporting needs to be in the future, and what that will involve. The regulators can create the environment to add value to disclosures through guidance and *the Code*.

6.0 THE CHANGES: REVALUATION OF LAND AND BUILDINGS

6.1 *The Code* requires land and buildings in the balance sheet to be carried at "fair value" and for a full independent valuation to be conducted at least every five years. The last valuation of all Council owned land and buildings was completed in October 2007 by DM Hall, a professional firm of chartered surveyors. A limited number of properties have been revalued since but only for significant changes in the portfolio. The current carrying value on the Council's balance sheet is around £333 million.

6.2 James Barr, Chartered Surveyors, have been engaged to conduct an up-to-date valuation of all Council land and buildings. This has been fully integrated with the valuation work separately required by our insurers, in order to contain costs. This firm of professional valuers is due to submit their report by the end of March and there is no indication yet of values. There is no impact upon Council Tax of these technical accounting adjustments.

7.0 THE CHANGES: ANNUAL GOVERNANCE STATEMENT

- 7.1 A new assurance statement will be required from 2013-2014 in the first section of the Accounts concerning the governance arrangements of the Council. This is to fully comply with forthcoming changes to the *Local Authority (Scotland) Accounts Regulations 1985* being brought forward by the Scottish Government. There will be a new mandatory requirement for an annual governance statement to form part of the statutory accounts.
- 7.2 This will lead to the inclusion of a new assurance statement in next year's (2013-2014) Accounts called the *Annual Governance Statement* that will replace the current Statement on the System of Internal Control. This new report will be more wide-ranging and will record the governance ethos of the organisation and assurances around the achievement of the vision and strategic objectives of the Council.
- 7.3 We are currently developing comprehensive arrangements for a *Local Code of Governance*, including the internal control framework, arrangements for risk management, financial governance and accountability. A report will be submitted to a future meeting of the Committee once proposals are more fully developed.

8.0 WORKING WITH OUR AUDITORS

- 8.1 Generally speaking, the role of external audit is to provide audit services. But as part of this, the auditors are able to offer a valuable opinion on the interpretation of *The Code*. As part of our project management of the year-end, we have regular meetings with our auditors. This means that we can progress to the next stage in the knowledge that we are building on strong and secure foundations. So far at least, the rigorous independent scrutiny that we have been through with Grant Thornton has avoided a build up of matters for which further clarification is required. 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.

9.0 IMPLICATIONS

9.1 Financial

None. Statutory regulations 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