October 2009

Falkirk Council

IFRS Phase 1 Impact Assessment

DRAFT

Contents

1) Introduction

This report presents the findings of the preliminary study performed by the Chartered Institute of Public Finance and Accountancy ("CIPFA") and PricewaterhouseCoopers LLP ("PwC") to assess the impact of applying International Financial Reporting Standards ("IFRS") to the financial reporting information of Falkirk Council ("the Authority").

The requirement for government bodies to adopt IFRS was first announced by the Chancellor in the 2007 Budget, however, the implementation of this was subsequently delayed by one year for Central Government and the NHS. As far as the local authority sector is concerned this convergence is to be fully achieved in the 2010/11 financial year.

Development of IFRS within Local Government

CIPFA/LASAAC is the accounting standard setter for local authorities. The development of IFRS within local authorities will be specified through an IFRS-Based Code of Practice on Local Authority Accounting ("the Code") as opposed to the current Local Authority Statement of Recommended Practice ("the SORP"). The external quality oversight role previously undertaken by the Accounting Standards Board ("the ASB") is now being undertaken by the Financial Reporting Advisory Board ("the FRAB").

A draft of the Code was issued in June 2009 for consultation and CIPFA anticipates that the first Code will be issued in December 2009, enabling Authorities to use the Code in the preparation of the 2010/11 Annual Accounts. The Code will subsequently be updated annually.

There are a number of unique features to local authority accounting, not least the differences between the Council Tax setting rules and accounting practice. These features require the Code to provide certain interpretations and adaptations of IFRS.

Planning for IFRS

As IFRS-compliant comparative data will be required in respect of the 2009/10 financial figures, all Authorities will need an opening Balance Sheet as at 1 April 2009. This underlines the importance of an early start to the IFRS project, and subsequently maintaining this momentum.

Indeed our experience of IFRS implementation in the private sector and other parts of the public sector, points to the benefits of implementing appropriate systems and processes in advance, rather than attempting to apply IFRS retrospectively to pre-existing data. The work carried out to restate the 1 April 2009 balance sheet will help to identify and quantify the potential impact on General Fund and Housing Revenue Account balances.

It is established practice for the Scottish Government to request information from local authorities after consultation with LASAAC. Where information is required local authorities will be contacted direct by the Scottish Government or LASAAC. The Council should follow closely any developments and proposals the Scottish Government might make to issue regulations allowing some or all of the impact to be neutralised.

It is also important that senior management are on board with the transition project from an early stage as the transition to IFRS should not be seen purely as a 'finance' exercise. The information requirements for IFRS compliant accounts and financial reporting span the whole of the organisation and will result in changes to the format and disclosures in the Annual Accounts.

It is important to note that Whole of Government Accounts (WGA) will be prepared on an IFRS basis from 2009/10, although it is anticipated that this will be achieved by the provision of additional accounting information by certain authorities rather than restatement of the published accounts by all authorities.

CIPFA/PwC – Technical Advice and Support

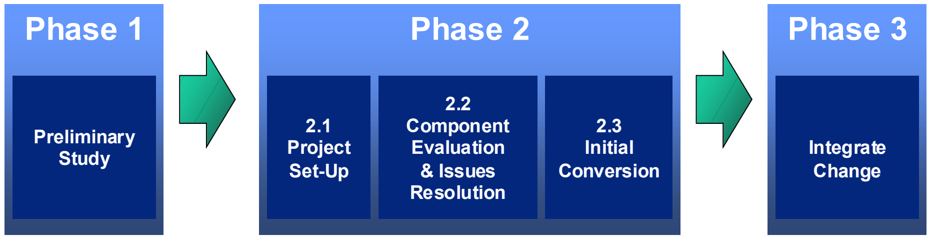
The Council has engaged CIPFA and PwC to provide technical advice and support to the Authority throughout the whole IFRS Transition Process. The overall objective of this engagement is to ensure a smooth IFRS transition process delivered accurately, consistently and with minimum disruption.

Our work will not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls, or other attestation or review services. Accordingly, we will not express an opinion or any other form of assurance on the accounting records or related support tools. Our work will be based primarily on information supplied by the Authority and will be carried out on the basis that such information is accurate and complete.

We emphasise that the responsibility for decision-making on the conversion to IFRS and concluding on the appropriateness of those decisions rests with the Authority. We will provide advice relating to the conversion Project, but it is the responsibility of the Authority to decide how and the extent to which our advice is used in converting to IFRS.

Due to the nature and complexity of the transition to IFRS, CIPFA and PwC favour a structured, phased approach for adoption. This overall phased approach is summarised in the diagram below.

Overall Transition project



Part of this phased approach includes the general regional IFRS Mobilisation sessions in April and May 2009, the drafting and issuing of summary guidance notes on the key areas of the Code, and meetings with the key members of the Authorities IFRS implementation team.

However, the key element of the phased approach is the undertaking of a preliminary study to assess the impact of converting from financial reporting under UK GAAP (as adopted through the SORP) to reporting under IFRS (as adopted through the Code).

Objectives of the Preliminary Study

The objectives of this preliminary study are to:

- Ensure that the principal issues created by the transition to IFRS have been identified;
- Evaluate the implications of such issues, including the impact on financial results, processes, systems and people;
- Evaluate the effect, where possible, on the financial statements and resources; and
- Develop an implementation plan in respect of the issues identified, including an analysis of the key decisions which need to be taken, as well as the required timescales

Work performed

We have reviewed the unaudited 2008/09 Annual Accounts provided by the Authority.

It should be noted that this review is a preliminary study to inform the set-up of the Authority's IFRS transition project. We have considered those areas that are likely to have the most significant implications for the Authority in terms of the likely impact on the reported financial position, and the amount of staff time required to generate IFRS-based financial statements and working papers.

We have not conducted a detailed review of all of the Authority's transactions nor have we validated any information provided verbally by Authority staff. We have also not set out the proposed accounting treatment for individual transactions and balances, but instead have identified areas for further review by the Authority as it continues its implementation of IFRS.

Issues arising

This report sets out the key issues that the Authority will need to consider as part of its IFRS implementation project. Our experience with IFRS is that the detailed review of transactions undertaken as part of IFRS implementation projects often identifies a number of accounting issues under the current SORP in addition to those arising under the Code.

Format of this report

This report is intended to be used as a two-part document:

1. The main body of the report sets out a summary of the key findings for the Authority's IFRS transition project.
2. Appendix 2 is a more detailed analysis of the likely implications for the Authority of each international accounting standard, as adopted by the Code, based on our understanding of the Authority's activities.

   Appendix 2 is intended as a tool to inform those members of the finance team who will be planning the second phase of the IFRS transition project; it should not be relied upon in place of the published accounting standards or in due course the Code, to which the Authority will need to refer throughout the transition project.

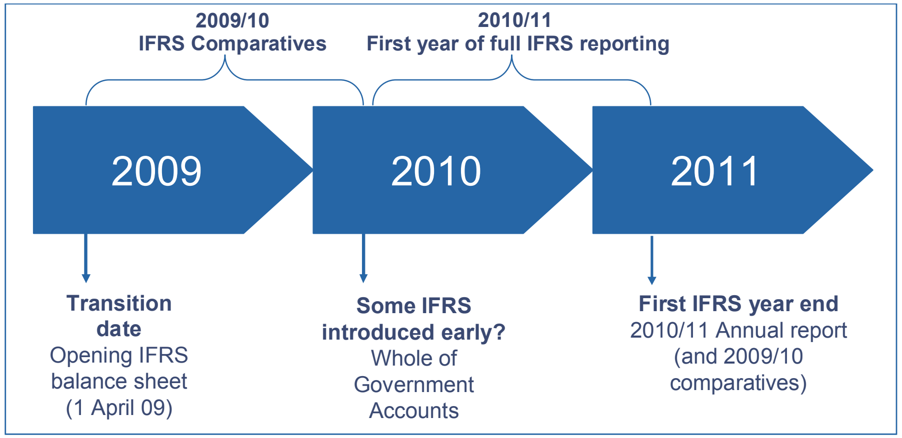
The narrative in this report includes the use of accounting terms which may be unfamiliar to some readers. We have included a glossary of terms in Appendix 1.

2) IFRS financial statements

In order to prepare IFRS compliant accounts in 2010/11, the Authority will be required to revise its Accounting Policies, change the format of its financial statements and include a significant number of additional disclosures. It will be required to restate its 2009/10 comparative figures and report these together with its 2010/11 figures in line with the Code.

The Transition time table for Local Authorities is shown in the diagram below:

Transition Timetable for Local Authorities



In order to restate the 2009/10 closing balances under the Code the Authority will need to recalculate its opening balance sheet at 1 April 2009 using the Code, construct a Code compliant comparative balance sheet at 31 March 2010, and produce a Code compliant Comprehensive Income and Expenditure statement, Movement in Reserves statement and Cash Flow statement for 2009/10. The initial IFRS changes arising on transition will be taken through the opening balance sheet at 1 April 2009. The subsequent transactions based on the Code will be through the Comprehensive Income and Expenditure statement and the Balance Sheet in 2009/10 (restated) and all future years.

CIPFA / LASAAC IFRS-based Code ("the Code")

The draft Code was issued in June 2009 for consultation. The consultation closed on 11 September 2009. It is anticipated that the final Code will be issued in December 2009, following approval by CIPFA/LASAAC on the 29th September 2009 and oversight by FRAB on the 8th October 2009. The Authority should note that the impact assessment has been carried out using the draft Code and therefore excludes the impact of areas where the draft Code did not conclude on, for example the treatment of Capital Grants, and Borrowing Costs.

Format of the Primary Financial Statements

A number of presentation changes are included in the Code. The primary financial statements will be as follows:

- Movement in Reserves statement; this statement shows the movement in the year on the different reserves held by the authority. The movement in the reserves includes adjustments between the General Fund/ HRA balances and other reserves in order to reflect the statutory amounts required to be charged to the General Fund Balance and

Housing Revenue Account for Council Tax setting and dwellings rent setting purposes

- Comprehensive Income and Expenditure statement; this statement shows the accounting cost in the year of providing services in accordance with IFRS, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves statement.
- Balance Sheet; the only difference in this statement to the one produced under the SORP, is in relation to the format.
- Cash Flow statement; the only difference in this statement to the one produced under the SORP, is in relation to the format.

The main difference between current practice and the proposed statements is the inclusion of the Movement in Reserves statement as a primary statement. The increased prominence of this should allow users of accounts to better understand the resources available to the Authority.

Areas of IFRS Impact under the Code

The following pages show the current format of the Authority's single entity financial statements; Income and Expenditure Account, Statement of Total Recognised Gains and Losses ("the STRGL"), Statement of Movement on the General Fund Balance and the Balance Sheet in the 2008/09 unaudited annual accounts, and map these to the proposed financial statements that are likely to be used in the Code for local authorities.

Against each line of the financial statements in the following pages we have set out the main International Standards (as adopted by the Code) that need to be referred to in the transition to IFRS (more detailed analysis of each standard is included in Appendix 2. This includes the standards applicable to the Authority's Group Accounts and Pension Fund Account, if applicable). In the following pages we have rated the impact of the restatement for each line of the Income and Expenditure account/STRGL, Statement of Movement on the General Fund Balance and the Balance Sheet, in a colour-coded format as follows:

	Significant numerical impact expected or significant time required to undertake sufficient analysis in order to restate on an IFRS basis. Changes to underlying Balance Sheet values and/or impact on Income and Expenditure account anticipated
	Some impact expected but mainly in the area of additional disclosures
	Minimal impact expected but some different/ additional disclosures likely
	Not considered applicable to the Authority based on our present understanding

It will also be important to consider the following accounting standards (as adopted by the Code) throughout the transition exercise:

- IAS 1 Presentation of financial statements; and
- IAS 8 Accounting policies, changes in accounting estimates and errors.

These will impact on the financial statements as a whole and as such have not been included in the line-by-line analysis on the following pages.

The Code has adopted the requirements of IFRS 1-First–time Adoption of International Financial Reporting Standards. Changes to Accounting Policies as a result of adopting the Code are to be accounted for retrospectively unless the Code requires an alternative treatment. In addition the Code requires the inclusion of an Opening Balance Sheet as at 1 April 2009 in the 2010/11 annual accounts.

The Code lists a number of adaptations and interpretations of IFRS 1 in respect of exemptions from the retrospective application of some requirements of other IFRSs. These exemptions are included against IFRS 1 in Appendix 2.

In the following pages, the description of the International Standards are shown in an abbreviated format.

Income and Expenditure Account, and STRGL for the year ended 31 March 2009	Income and Expenditure Account and STRGL based on the Format of the Code	Key international standards (as adopted by the Code) to be considered for transition *	Traffic light rating
Income and Expenditure Account:	**(Surplus)/ Deficit on Provision of Services:**		
Gross Income	**Gross Income**	• IAS 18 (Revenue) • IFRS 8 (Operating Segments) • IAS 17 (Leases)	
Gross Expenditure	**Gross Expenditure** (Movement in the fair value of investment property will be shown under the heading of Financing and Investment Income and Expenditure under the Code)	• IAS 16 (Property, Plant and Equipment) • IAS 17 (Leases) • IAS 19 (Employee Benefits) • IAS 20 (Government Grants) • IAS 36 (Impairment) • IAS 40 (Investment Property) • IFRS 8 (Operating Segments) • IAS 37 (Provisions) • IFRIC 12 (Service Concessions)	***
(Gain)/ Loss on Disposal of Fixed Assets	**Other Operating Expenditure** There is no corresponding line in the Code. Included within Other Operating Expenditure in the Code with the option to separately disclose.	• IAS 16 (Property, Plant and Equipment) • IFRS 5 ** (Non-Current Assets held for Sale)	
Total Net Surplus from Trading Operations	There is no corresponding line in the Code, although the Code specifies it should be disclosed in a note to the accounts.	(will follow relevant standards listed against gross income and gross expenditure above) • IAS 11 (Construction Contracts)	(will follow relevant standards listed against gross income and gross expenditure above)

Interest Payable and Similar Charges	**Financing and Investment Income and Expenditure**	• IAS 23 (Borrowing Costs) • IAS 32 (Financial Instruments-presentation) , IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	***
Interest Receivable	**Financing and Investment Income and Expenditure**	• IAS 18 (Revenue) • IAS 32 (Financial Instruments-presentation) , IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Pensions Interest Cost and Expected Return on Pension Assets	**Financing and Investment Income and Expenditure** There is no corresponding line in the Code. Included within Financing and investment income and expenditure in the Code with the option to separately disclose.	• IAS 19 (Employee Benefits)	
Government Grants **Distribution from Non Domestic Rates Pool** **Council Tax**	**Taxation and Non-Specific Grant Income**	• IAS 18 (Revenue)	
(Surplus)/ Deficit for the Year	**Surplus or Deficit on Provision of Services**		
STRGL:	**Other Comprehensive Income and Expenditure:**		
(Surplus)/ Deficit for the Year on the Income and Expenditure account	There is no corresponding line in the Code because the lines items of the I&E a/c and STRGL are contained within one statement; the Comprehensive Income and Expenditure statement.		
(Surplus) or Deficit arising on the Revaluation of Fixed Assets	**(Surplus)/ Deficit on Revaluation of Fixed Assets** (Movement in the fair value of investment property will be shown under the heading of Financing and Investment Income and Expenditure under the Code & impairments whilst an asset is held for sale will not be posted to the Revaluation Reserve)	• IAS 16 (Property, Plant and Equipment) • IAS 36 (Impairment of Assets) • IAS 40 (Investment Property)	

		• IFRS 5 (Non-Current Assets held for Sale)	
Actuarial (Gains) or Losses on Pension Fund Assets and Liabilities	**Actuarial (Gains)/ Losses on pension Assets/ Liabilities**	• IAS 19 (Employee Benefits)	
Any Other (Gain) or Losses	There is no corresponding line in the Code ****		
Total Recognised Gains and Losses for the Year	**Total Comprehensive Income and Expenditure**		

* Refer to Appendix 2 for a detailed analysis of the implications of each international standard (as adopted by the Code) for the Authority.

** Included against (Gain)/ Loss on disposal of fixed assets, although Standard is not directly relevant to derecognition of fixed assets (this is covered in IAS 16), it may have an impact on the size of any gain or loss due to the different basis of measurement of assets held for sale.

*** CIPFA/LASAAC has been unable to finalise its proposals with the Draft Code with regard to Borrowing Costs and Accounting for Capital Grants as there is an ongoing debate at either national or international level. The consultation included two accounting options for both of the two areas (refer to Appendix 2 for these options).

**** The Authority will need to ensure in the future that any previous amounts reflected in this line are correctly reflected in the new financial statement formats under the Code.

Statement of Movement on General Fund Balance for the year ended 31 March 2009	Statement of Movement on General Fund Balance based on the Format of the Code	Key international standards (as adopted by the Code) to be considered for transition *	Traffic light rating
Statement of Movement on General Fund Balance:	**Movement in Reserves Statement:**		
(Surplus)/ Deficit for the Year on the Income and Expenditure account	**Surplus or Deficit on Provision of Services**	• IAS 1 (Presentation of Financial Statements) (The principle of including this line is no different than under the SORP; although the amount may change)	
Not Applicable - no corresponding line in the SORP	**Other Comprehensive Income and Expenditure**	• IAS 1 (Presentation of Financial Statements) (This will be a new line under the new statement under the Code)	
Amortisation of Intangible Fixed Assets	**Amortisation of Intangible Fixed Assets**	N/A – adjustment between accounting basis and funding basis under regulations (restatements under IFRS may affect this adjustment)	
Depreciation and Impairment of Fixed Assets	**Depreciation and Impairment of Fixed Assets**	N/A – adjustment between accounting basis and funding basis under regulations (restatements under IFRS may affect this adjustment)	
Government Grants Deferred Amortisation	**Government Grants Deferred Amortisation**	N/A – adjustment between accounting basis and funding basis under regulations	**
Net Gain on Sale of Fixed Assets	**Gain or loss on Sale of Fixed Assets**	N/A – adjustment between accounting basis and funding basis under regulations (restatements under IFRS may affect this adjustment)	
Amount by which finance costs calculated in accordance with the SORP are different from the	**Amount by which finance costs calculated in accordance with the Code are different from the**	N/A – adjustment between accounting basis and funding basis under	

amount of finance costs calculated in accordance with statutory requirements	**amount of finance costs calculated in accordance with statutory requirements**	regulations (there is expected to be no impact on this adjustment as a result of the transition to IFRS)	
Net Charges made for Retirement Benefits in accordance with FRS 17	**Net Charges made for Retirement Benefits in accordance with IAS 19 (Employee Benefits)**	N/A – adjustment between accounting basis and funding basis under regulations (restatements under IFRS not expected to affect this adjustment)	
Statutory Repayment of Debt	**Statutory Provision for Repayment of Debt**	N/A – adjustment between accounting basis and funding basis under regulations (there is expected to be no impact on this adjustment as a result of the transition to IFRS)	
Capital Expenditure Charged in Year to the General Fund Balance	**Capital Expenditure Charged in Year to the General Fund Balance**	N/A – adjustment between accounting basis and funding basis under regulations (there is expected to be no impact on this adjustment as a result of the transition to IFRS)	
Employer's contribution payable to the Local Government Pension Fund and Retirement Benefits Payable Direct to Pensioners	**Net Charges made for Retirement Benefits in accordance with IAS 19 (Employee Benefits)**	N/A – adjustment between accounting basis and funding basis under regulations (restatements under IFRS not expected to affect this adjustment)	
Transfer to/ (from) Insurance Fund	**Net Transfer to/(from) Earmarked Reserves**	NA – Statutory Reserve (there is expected to be no impact on this transfer as a result of the transition to IFRS)	
Transfer to/ (from) the Repairs and Renewals Funds	**Net Transfer to/(from) Earmarked Reserves**	NA – Statutory Reserve (there is expected to be no impact on this transfer as a result of the transition to IFRS)	

* Refer to Appendix 2 for a detailed analysis of the implications of each international standard (as adopted by the Code) for the Authority.

** CIPFA/LASAAC has been unable to finalise its proposals with the Draft Code with regard to Accounting for Capital Grants as there is an ongoing debate at either national or international level. The consultation included two accounting options (refer to Appendix 2 for these options).

Balance Sheet as at 31 March 2008	Balance Sheet based on the Format of the Code	Key international standards to be considered for transition project *	Traffic light rating
Fixed Assets	**Long Term Assets**		
Council Dwellings Other Land and Buildings Vehicles, Plant and Equipment Infrastructure Community Assets Assets Under Construction	Property, plant and equipment	• IAS 16 (Property, Plant and Equipment) • IAS 17 (Leases) • IAS 23 (Borrowing Costs) • IAS 36 (Impairment of Assets) • IFRIC 12 (Service Concessions)	 **
Intangible Fixed Assets	Intangible assets	• IAS 38 (Intangible Assets)	
Investment Property	Investment Property	• IAS 40 (Investment Property) • IAS 17 (Leases)	
Surplus Assets for Resale	Assets Held for Sale	• IFRS 5 (Non-Current Assets held for Sale)	
	Investments in Associates and Joint Ventures	• IAS 27 (Consolidations)	
Capital Advance to Central Scotland Joint Fire and Rescue Board		• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Long Term Investments	Long Term Investments	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Long Term Debtors	Long Term Debtors	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Current Assets	**Current Assets**		
Stock and work in progress	Stock	• IAS 2 (Inventories) • IAS 11 (Construction Contracts)	

DRAFT

Balance Sheet as at 31 March 2008	Balance Sheet based on the Format of the Code	Key international standards to be considered for transition project *	Traffic light rating
	Assets held for sale	• IFRS 5 (Non-Current Assets held for Sale)	🔴
Debtors (includes bad debt provision)	Short Term Debtors	• IAS 18 (Revenue) • IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	🟢 🟢
Council House Rents in Arrears	Short Term Debtors	• IAS 18 (Revenue) • IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	🟢 🟢
Less Provision for Bad Debts (House Rents)	Short Term Debtors	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	🟢
Investments	Short Term Investments	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	🟢
Cash and Bank	Cash and cash equivalents	• IAS 7 (Cash Flow Statement)	🟡
Current Liabilities	**Current Liabilities**		
Temporary Advance from Other Funds	Short Term Borrowing	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	🟢
Borrowing Repayable on Demand or within 12 Months	Short Term Borrowing	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	🟢

Balance Sheet as at 31 March 2008	Balance Sheet based on the Format of the Code	Key international standards to be considered for transition project *	Traffic light rating
Creditors	Short Term Creditors	• IAS 18 (Revenue) • IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Council House Rents in Advance	Short Term Creditors	• IAS 18 (Revenue) • IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Bank Overdraft	Bank Overdraft	• IAS 7 (Cash Flow Statement) • IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
	Provisions	• IAS 37 (Provisions)	
Long Term Liabilities	**Long Term Liabilities**		
Long Term Borrowing	Long Term Borrowing	• IAS 32 (Financial Instruments-presentation) IAS 39 (Financial Instruments-recognition and measurement), IFRS 7 (Financial Instruments-disclosures)	
Provision for Equal Pay Liabilities	Provisions	• IAS 37 (Provisions)	
Deferred Government Grants and Other Contributions	Other Long Term Liabilities	• IAS 20 (Government Grants)	**
Liability related to Defined Benefit Pension Scheme	Other Long Term Liabilities	• IAS 19 (Employee Benefits)	
Total Net Assets	**Total Net Assets**		
Represented by:	**Reserves:**		

Balance Sheet as at 31 March 2008	Balance Sheet based on the Format of the Code	Key international standards to be considered for transition project *	Traffic light rating
Revaluation Reserve	Unusable Reserves (Movement in the fair value of investment property will be shown under the heading of Financing and Investment Income and Expenditure under the Code & impairments whilst an asset is held for sale will not be posted to the Revaluation Reserve)	• IAS 16 (Property, Plant and Equipment) • IAS 36 (Impairment of Assets) • IAS 40 (Investment Property) • IFRS 5 (Non-Current Assets held for Sale)	
Capital Adjustment Account	Unusable Reserves	• N/A – Statutory Reserve (restatements under IFRS may affect this Account)	
Capital Receipts Reserve	Useable Reserves	• N/A – Statutory Reserve (restatements under IFRS may have a significant affect on this Reserve, but will depend on mitigation by regulations)	
Financial Instruments Adjustment Account	Unusable Reserves	• N/A – Statutory Reserve (there is expected to be no impact on this Account as a result of the transition to IFRS)	
General Fund Balance	Useable Reserves	• N/A – Statutory Reserve (restatements under IFRS may have a significant affect on this Reserve, but will depend on mitigation by regulations)	
Repairs and Renewals Fund	Useable Reserves	• N/A – Statutory Reserve (there is expected to be no impact on this Reserve as a result of the transition to IFRS)	
Insurance Fund	Useable Reserves	• N/A – Statutory Reserve (there is expected to be no impact on this Reserve as a result of the transition to IFRS)	
Pensions Reserve	Unusable Reserves	• N/A – Statutory Reserve (there is expected to be no impact on this Reserve as a result of the transition to IFRS	
Total Net Worth	**Total Reserves**		

* Refer to Appendix 2 for a detailed analysis of the implications of each international standard for the Authority.

** CIPFA/LASAAC has been unable to finalise its proposals with the Draft Code with regard to Borrowing Costs and Accounting for Capital Grants as there is an ongoing debate at either national or international level. The consultation included two accounting options for both of the two areas (refer to Appendix 2 for these options).

.

3) Top IFRS work streams for the Authority

In this section we have set out our view of the six most significant pieces of work that the Council will need to undertake in order to prepare IFRS-compliant financial statements. We have considered those areas with the most significant implications for the Authority in terms of the potential impact on the reported financial position and/or the amount of staff time required to work through them.

It should be noted that this review is a preliminary study to inform the set-up of the Authority's IFRS transition project. We have not conducted a detailed review of all of the Authority's transactions nor have we validated any information provided verbally by the Authority staff.

1. First time adoption, presentation of financial statements and accounting policies

The first time adoption of IFRS (based on IFRS 1 First–time Adoption of International Financial Reporting Standards, as adopted by the Code) will involve significant investment in terms of management time, and is wider than just a finance issue. Effective implementation of IFRS will involve Authority-wide engagement and as such senior management involvement is recommended from an early stage.

IAS 1 (as adopted by the Code) will have an impact on the format and content of the financial statements. Though in some cases the main components of the financial statements are broadly the same, there are changes to the categories used in the financial statements (as shown in the mapping exercise detailed earlier in this report) and the potential for additional disclosures.

2. Leases and lease arrangements

Differences from current practice

Under IFRS the Authority will be required to account separately for leases of land and buildings (previously these may have been treated as one lease) with land now more likely to be classed as an operating lease. The Authority will need to review its property leases in order to identify those that relate to both land and buildings. It is suggested that the Authority should concentrate on the gathering of all relevant information, liaison with external auditors as to the materiality and what should be reviewed. Where possible, the Authority will need to attribute values to the land and buildings components within each property lease in order to account for each element separately. Consultation with a qualified valuer may be required to facilitate this.

Although the definition of a finance lease is very similar under IFRS, IFRS does not apply a quantitative threshold in determining the classification of a lease. Instead, it uses a series of indicative situations which could indicate whether a lease should be classified as a finance lease. IFRS therefore, requires more judgement in the classification of leases.

IFRS also deals with instances where there are undocumented lease arrangements or legal arrangements which do not explicitly state that they are a lease, but which in substance have the characteristics of a lease. Such arrangements should be assessed in accordance with the leasing standards.

Current position

The Authority has various operating leases where it is the lessee; 84 leases are in respect of various land and buildings (it should be noted that these leases are not included in the lease disclosure note in the 2008/09 unaudited accounts), 3 leases (4 from 2009/10) are in respect of investment property which are leased out, 16 leases are in respect windows for the HRA and 9 leases in respect of vehicles. In 2008/09, the payments to lessors totalled £3.927m (excluding the 84 leases in respect of land and buildings), of which £2.409m is in relation to HRA (windows), £319k for vehicles and £1.199m for investment property. The Authority will need to have regard to the changes in the definition and accounting treatment of investment property (see IAS 40). The Authority currently does not have any finance leases in which it is the lessee. The Authority has numerous operating leases in which it is the lessor, these assets are classified primarily as investment property, and again the Authority will need to have regard to the changes in the definition and accounting treatment of investment property (see IAS 40). The Authority does not currently have any finance leases where it is the lessor.

The Authority has recently taken steps to record all its property leases in a central database. Work is currently ongoing at the time of writing to compile a central database for vehicles, plant and equipment.

3. PPP/ PFI and Service Concessions

Differences from current practice

The CIPFA/LASAAC Local Authority SORP Board has opted to introduce PFI/Service Concessions into the SORP with effect from 1 April 2009, to achieve convergence with the rest of the Public Sector and introduce IFRS over a two year period. Therefore full application of the applicable standards (as adopted by the 2009 SORP) will be required for the 2009/10 financial statements and prior period adjustments may be required for 2008/09.

IFRIC 12 Service Concessions is the particular standard interpretation applicable to PPP/ PFI transactions. Under UK GAAP (FRS 5 Application Note F; Private Finance Initiative and similar contracts) schemes were typically assessed on a transfer of risk and rewards approach in determining whether infrastructure assets should come onto an entity's balance sheet. Under this approach, such assets were usually assessed to be off the public sector's balance sheet.

IFRIC 12 (as adopted by the 2009 SORP and subsequently by the Code) takes a fundamentally different approach and looks at aspects of control of an asset. Where it is deemed that the public sector has control of the asset, then it should appear on the public sector balance sheet. Examples of control include specifying the services to be provided from a particular asset, and regulating the price paid for the services.

It should be noted that the standards could apply to non PPP/ PFI transactions were the control criteria are met.

Current position

The Authority has entered into a Public Private Partnership with Class 98 Ltd to provide five schools. Payments became due under the contract from August 2000 and terminate in July 2026. The basic annual cost of these schools is £11.149m. No residual value is being built up in the balance sheet for the facilities; therefore it is assumed that all the annual payments are being charged to Income and Expenditure account. As part of the Schools NPDO the Council has a variant PFI scheme with Falkirk Schools Gateway Ltd to provide four new high schools. Payments became due under the contract from January 2009 and terminate in March 2040. The basic annual cost of these schools is £8.992m. Both schemes are 'off-balance sheet' and PFI credits being received in respect of both schemes.

4. Fixed asset accounting

<u>Assets held for sale</u>

Differences from current practice

Under IFRS 5, if a fixed asset is available for immediate sale, is being actively marketed, and if completion of the sale is expected within twelve months, the asset should be classified as a asset held for sale and should be held on the balance sheet at the lower of carrying value and 'fair value less costs to sell*'. Depreciation on such assets should cease.

Under the current SORP there are no specific criteria for classifying an asset as held for sale. Furthermore, such assets would not be exempt from depreciation.

On the initial reclassification of an asset to the category of assets held for sale or subsequently, an authority is required to recognise an impairment or revaluation loss in the Comprehensive Income and Expenditure statement on the write-down to fair value less costs to sell (even where there is a balance on the revaluation reserve for the asset). Under the SORP revaluation and impairment losses were posted to the revaluation reserve.

* Where the fair value less costs to sell is higher then the carrying amount, the gain can be reflected but only to the extent that it reverses previous impairment losses or revaluation losses charged to the Comprehensive Income and Expenditure statement (adjusted for depreciation). Under the SORP any increases in fair value were not restricted.

Where the criteria are no longer met, an asset is reclassified and valued at the lower of its; recoverable amount at the date of the decision not to sell, and carrying amount before the asset was classified, adjusted for depreciation or revaluations that would have occurred if the asset had not been reclassified as 'held for sale'. Where the carrying amount before the asset was classified as held for sale was based on a re-valued amount (i.e. there is a balance on the Revaluation Reserve), the adjustments are treated as a revaluation increase or decrease and posted to the Revaluation Reserve. Where the carrying amount before the asset was classified as held for sale was based cost (i.e. there is no balance on the Revaluation Reserve), the adjustments are posted to the Comprehensive Income and Expenditure statement. Under the SORP the accounting treatment of the restatement was different.

Current position

The Authority had £1.396m of surplus assets held for disposal disclosed in its 2008/09 unaudited annual accounts. The valuation is based on open market value. The 2008/09 unaudited annual accounts also disclosed that 18% (£314k) of the carrying amount was disposed during 2008/09 (that were classified as surplus assets), which indicates that the strict criteria under the Code may not be met.

Where assets are not operational and being purely held for capital appreciation purposes these may be considered investment properties.

Component accounting

Differences from current practice

IAS 16 'Property Plant & Equipment' introduces the concept of accounting for 'significant' components of assets separately, including recognising the depreciation charges. In addition, the Standard also covers the process of derecognising a component that is being replaced and recognising the new component. The derecognition needs to take place irrespective of whether the old component is separately identified.

Component accounting already exists under UK GAAP and is not precluded by the SORP, however separate accounting for components has not been widely practiced.

The Code specifies that the requirement for componentisation will be prospective; applicable to enhancement and acquisition expenditure incurred, and revaluations from 1 April 2010.

Current position

The Authority does not have an accounting policy on component accounting and therefore it is assumed that component accounting is not currently being carried out.

Investment property

Differences from current practice

Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property under the Code, and is accounted for as Property, Plant and Equipment (IAS 16). The SORP did not contain a strict definition of investment property.

The Code requires investment properties to be measured at fair value or at cost where the fair value cannot be reliably determined. The SORP requires them to be carried at market value therefore there is likely to be no difference in valuation. The Code requires investment property held under a lease to be valued at fair value (lease interest). Investment property under construction is measured at fair value where the fair value can be measured reliably otherwise they are measured at cost. The SORP required all fixed assets under construction (including investment property) to be measured at cost.

SORP required investment property held under a lease to be depreciated where the unexpired term was 20 years or less. This requirement has been removed in the Code.

The Code requires gains and losses on valuation to be taken to the surplus or deficit on provision of services, as opposed to the revaluation reserve under the SORP.

The Code requires component accounting; where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount.

Current position

In the 2008/09 unaudited annual accounts the Authority held £95,639m of investment property, some of which are leased out. As such it is expected that the definition of investment property and the classification of leases under the Code will have an impact on the treatment of these.

5. Employee benefits

Differences from current practice

Traditionally under the SORP local government bodies have not recognised accruals at year end for short and long term benefits during employment, for example, staff holiday entitlement that has not yet been taken and which is being carried forward to the following year. Accounting for this is specifically mentioned in IAS 19 and therefore under the Code it is expected that all local government bodies will either recognise a holiday pay accrual or will perform sufficient analysis in this area to satisfy their external auditors that it is not a material amount and therefore does not need to be recognised.

Current practice

The authority does not currently accrue for outstanding holidays, flexi time or any other short/long-term benefits during employment. The number of days leave ranges from 20 to 33 based on length of service. This excludes teachers where the fixed level is 65 days. The maximum carry forward for flexi time is 14 hours.

6. Group accounts

Differences from current practice

Subsidiaries – The Code is broadly similar to the SORP, but there are minor differences to the definition of the group boundary, the consolidation period and the calculation of the gain or loss on disposal of a subsidiary.

The Authority should note that the consolidation of charities/trust funds within a reporting authority's Group Accounts is being considered as part of a wider public sector standard approach. When an approach is agreed this will be incorporated into the Code. The Authority should keep a close watch on this matter.

Associates – The Code's definition of Associates is broader than under the SORP which could mean some differences in interpretation of those entities brought into the group accounts. There is also a minor difference to the consolidation period.

Joint Ventures – The only difference in the definition of Joint Ventures between the SORP and the Code is the text 'long-term basis' within the SORP. It is considered that it is unlikely that additional joint ventures will be brought into an authority's group boundary i.e. an interest in a joint venture on a short term basis may not be consolidated on materiality grounds. There is also a minor difference to the consolidation period. In addition the SORP requires the use of the gross equity method for the consolidation of jointly controlled entities. The Code requires the use of proportionate consolidation or equity method.

Current position

Subsidiaries – The Authority currently does not consolidate any subsidiaries into its group accounts. The Authority acts as sole or custodian trustee for a number of trust funds. These trust funds are not consolidated into the Authority's group accounts.

Associates – the Authority consolidates four associates into the group accounts; Central Scotland Joint Fire and Rescue Board, Central Scotland Joint Police Board, Central Scotland Joint Valuation Board and Falkirk Community Stadium Ltd (FCSL). However, during the current financial year, FCSL was reorganised. A new relationship now exists (from 28/5/09) in that the Council owns 100% of the share capital of Falkirk Community Stadium (Holdings) Ltd, which in turn owns 100% of the share capital of Falkirk Community Stadium Ltd.

Joint Ventures – The Authority currently consolidates one joint venture into the group accounts- the Common Goods Fund

Conclusion

In addition to the top six IFRS work streams identified above, Appendix 2 provides additional analysis of the likely implications of each international accounting standard (as adopted by the Code), together with consideration of the actions required by the Authority.

The Authority will also need to consider resourcing and capability issues and factor these into any future IFRS project plans. Indeed the changes required by the Code will extend across the Authority's operations, and will require many people at the Authority to perform tasks that they have not performed before, either in the transition period or on an ongoing basis. Those affected by the conversion to IFRS will not just be accountants or those that work in reporting; the change will affect staff in areas such as estates, personnel and ICT, as well as individual budget managers.

4) IFRS action plan

In this section we have provided the Authority with an outline IFRS implementation action plan, at a summary and detailed level, which we suggest could be extracted and tailored further from this report (i.e. include 'responsibility' within the detailed plan), and used as a project-overview wall chart by the IFRS project management team. It contains details and actions for the team to consider now and throughout the project to ensure momentum and progress with the project.

A Basic Proposed IFRS Implementation Action Plan

A Proposed IFRS Implementation Action Plan - Detail

Step	Comments	Suggested key actions	Responsibility	Timing
1. Review CIPFA/PwC guidance notes	CIPFA/PwC have issued the Authority with guidance notes covering a number of areas to assist the Authority in: ▪ Understanding the requirements of the Code; and ▪ Identifying the processes (including sampling) and actions to adopt in restating 1 April 2009 balances and 2009/10 comparatives.	▪ Assess and understand the CIPFA/PwC guidance notes; ▪ Determine which notes are relevant to the Authority; ▪ Identify and implement the processes and actions relevant to the Authority.	JF/CMcG/SMcL DC/MS/AF	Immediately and throughout the project
2. Implement project management team	It is important for the Authority to set up comprehensive project management arrangements and ensure that stakeholders, including the Audit Committee and External Audit are kept up to date with progress and the projected impact on the reported position. The project is significant and should not be underestimated. As such we recommend that senior management 'buy in' is sought from the outset. It is important that they are fully onboard to ensure that sufficient resources are directed at the project.	▪ Mobilise team immediately; ▪ Engage senior management; ▪ Develop Terms of Reference for the team; ▪ Agree appropriate format and frequency for CIPFA/PwC support and advice; ▪ Agree work streams, mechanisms for communicating with stakeholders and key project milestones; ▪ Hold regular progress meetings until project completion.	JF	Immediately and throughout project

Step	Comments	Suggested key actions	Responsibility	Timing
3. Involvement of those charged with governance	Senior management sponsorship of project is essential for a successful conversion. Management should be fully briefed on the impact on the financial statements and consideration should also be given in relation to communicating these changes to stakeholders.	▪ Present impact assessment to the Audit Committee, and Executive; ▪ Present details of the Project Management Team, its membership, remit and proposed action plan; ▪ Obtain approval of IFRS accounting policies; ▪ Obtain approval of IFRS restated 1 April 2009 balances and 2009/10 comparatives.	JF	Immediately and at various agreed stages throughout the project
4. Liaise with External Auditors about IFRS transition	Technical issues in the 2008/09 accounts should be evaluated on an IFRS basis to ensure no surprises on restatement. In addition, materiality should be discussed and agreed, particularly around leases in order that the required work can then be planned and scoped. Furthermore the Authority should be in contact with the External Auditors to discuss the requirements for restatement. Although there is at present no formal requirement for the 1 April 2009 balances and 2009/10 comparatives to be audited, the Authority may wish to discuss with its External Auditors a phased approach to this work for early assurance of its IFRS work programme.	▪ Arrange a kick-off meeting to discuss project approach and views on materiality (particularly around work required on leases and holiday pay accruals); ▪ Schedule regular update meetings going forward to update on progress and discuss issues arising (CIPFA/PwC can be present if required).	JF	Immediately and throughout project

Step	Comments	Suggested key actions	Responsibility	Timing
5. Assess IFRS information requirements	IFRS in many areas results in new information requirements, particularly with regards the holiday pay accrual, as well as lease-type arrangements, component accounting and assets held for sale. The Authority should assess new information requirements early, to ensure systems and processes are updated where necessary to obtain and maintain such information.	▪ Review of impact assessment outputs to assess new areas of accounting impact; ▪ Assess whether information can be obtained from current systems and processes; ▪ Undertake changes to systems and processes (where appropriate) to enable new information requirements to be met.	JF/CMcG/SMcL DC/MS/AF	Immediately – June 2010
6. Assess and address PFI/PPP accounting issues	Given the provisions for PFI/PPP are applicable for the 2009 SORP, technical review and consideration of this key IFRS impact area is a priority. Experience from the Public Sector so far indicates that most off-balance sheet schemes under UK GAAP come on balance sheet on transition to IFRS. An early assessment of the schemes is recommended to confirm this. The modelling of PFI/PPP assets coming on balance can be complex and the Authority must not underestimate the time taken to make these changes.	▪ In the period until the PFI workshop/seminar, the Authority should commence assessing and collating the required information following the CIPFA/PwC guidance notes;	DC/CMcG	Immediately – June 2010

Step	Comments	Suggested key actions	Responsibility	Timing
6. Assess and address PFI/PPP accounting issues (continued)		▪ Accounting entries – if it is concluded that the schemes are on-balance sheet, then the detailed accounting entries to bring on balance sheet will need to be worked through to show the position had the schemes been so treated from their inception. The Authority should ensure that use is made of the PFI/ PPP model which will be provided by the CIPFA/PwC team and will generate IFRS compliant accounting entries.	DC	
7. Assess and Resolve employee benefit accounting issues	Given the opening balance sheet date has passed – it will be important to gather accrued employee benefit information as soon as possible to get an accurate reflection of the opening balance sheet accrual.	▪ Assess and understand the Guidance Notes and Sampling Guidance issued by PwC/CIPFA; ▪ Identify different types of holiday arrangements currently in place. The Authority should consider documenting the different arrangements in place and categorisation staff within these;	MS/AF	Immediately – December 2009; July 2010 – September 2010; and April 2011 – June 2011

Step	Comments	Suggested key actions	Responsibility	Timing
7. Assess and Resolve employee benefit accounting issues (continued)	Given the nature of the Authority's holiday entitlement policy, (i.e. where an employee's holiday entitlement varies) this work may involve significant resource. It is also likely that such an accrual could be significant. The Authority should note that LASAAC is currently consulting with the Scottish Government as to whether the impact of the accrual of holiday pay will be neutralised. The Authority should keep a close watch on this matter.	▪ A sample approach is recommended to calculate the accrual. This should be discussed with the External Auditors. The Authority should ensure that use is made of the guidance notes that CIPFA/PwC team will be issuing; ▪ Timeliness of data will be a key issue for the Authority in this task and it is important that the finance department liaises with HR, payroll and ICT to discuss the practicalities of collecting the required data and to ensure that the necessary information is being collected at year-end and made available in good time;	MS/AF	

Step	Comments	Suggested key actions	Responsibility	Timing
7. Assess and resolve employee benefit accounting issues (continued)		▪ Although it appears that the holiday pay will be the biggest challenge to the Authority under IAS 19 (as adopted by the Code), consideration must be given to other employee benefits including bonuses, long service awards and redundancies where benefits arise but are not paid within the accounting period.	JF	
8. Assess and resolve fixed asset accounting issues	The desk top review of the unaudited 2008/09 annual accounts identified a number of issues which the Authority will need to consider under transition. These areas are: ▪ Valuation and classification of assets held for sale ▪ The requirement for component accounting in terms of depreciation and the process of derecognising a component that is being replaced and recognising the new component; ▪ Definition of investment property and accounting for gains and losses.	Assets Held for Sale: ▪ The Authority should review the portfolio of surplus assets and assess in terms of: ➢ Meeting the strict criteria under the Code; ➢ Depreciation; ➢ Valuation of the assets where the carrying amount is lower than fair value less costs to sell;	CMcG	Immediately – December 2009; July 2010 – September 2010; and April 2011 – June 2011

Step	Comments	Suggested key actions	Responsibility	Timing
8. Assess and resolve fixed asset accounting issues (continued)		➢ Revaluation gains are in excess of previous impairments and revaluation losses charged to the Comprehensive Income and Expenditure statement (adjusted for depreciation); ➢ Where sale is expected beyond one year, consider discounting the sale costs (unless immaterial); ➢ Splitting the assets that can be classified as held for sale under the Code, between 'long term' assets held for sale and 'current assets' held for sale, in terms of presentation on the face of the balance sheet; ➢ Changes to the plan to sell, and account correctly for the restated amount.	CMcG	

Step	Comments	Suggested key actions	Responsibility	Timing
8. Assess and resolve fixed asset accounting issues (continued)		▪ Where the criteria have not been met, the Authority should consider whether assets would fall to be classed as investment property; ▪ Consult with the valuer the valuation basis of those assets for which classification will change under IFRS; ▪ Review the fitness for purpose of the asset management system. Consider whether the system can meet the additional informational demands required. These additional information requirements will cover: ➢ Change in the measurement basis of assets held for sale; ➢ No depreciation on assets held for sale; ➢ Restriction of revaluation gains;	CMcG	

Step	Comments	Suggested key actions	Responsibility	Timing
8. Assess and resolve fixed asset accounting issues (continued)	The Authority will need to consider the practicalities of component accounting on property. The Authority should be aware of on-going discussion between CIPFA and RICS on application of Component Accounting to property valuations. The purpose of these discussions is to establish the level to which robust and accurate valuations can be attributed to asset components. The Authority should discuss with their external auditors what is considered 'significant' and what level of components the Authority's valuers can provide robust and accurate valuations (i.e. structure, land and engineering).	➢ All impairment/ revaluation losses charged to the Comprehensive Income and Expenditure statement (even where there is a balance on an asset's Revaluation Reserve); ➢ Investment property to be disposed of, are not permitted to be reclassified as held for sale; ➢ Recording correctly an asset's carrying amount where there has been a change in the plan to sell. Component Accounting: ▪ Early engagement with the valuer is recommended. Componentisation may place significantly more demand on the revaluations process;	CMcG	

Step	Comments	Suggested key actions	Responsibility	Timing
8. Assess and resolve fixed asset accounting issues (continued)		▪ Review the fitness for purpose of the asset management system. Consider whether they system can meet the additional informational demands required; ▪ We also suggest that the Authority considers how the capital programme is structured, as the programme may need to be more detailed.	CMcG	
	The Authority should note that CIPFA has notified the Scottish Government that current regulations would not allow the mitigation of gains or losses for investment property on the 'bottom line' for council tax purposes. The Authority should keep a close watch on this matter.	Investment Property: ▪ A listing of all investment properties should be examined, and the purpose they are held by the Authority should be investigated; ▪ All investment properties should be valued at fair value, with gains and losses being taken to the surplus or deficit on provision of services (as opposed to the revaluation reserve under the SORP);		

Step	Comments	Suggested key actions	Responsibility	Timing
8. Assess and resolve fixed asset accounting issues (continued)		▪ Review the fitness for purpose of the asset management system. Consider whether the system can meet the additional informational demands required. These additional information requirements will cover: ➢ Accounting treatment of gains and losses arising from changes in the fair value of investment property.	CMcG	
9. Assess and resolve leases and lease arrangements accounting issues	The Council should start work on this area as soon as possible to ensure that all issues are addressed prior to the 2009/10 year end. The Authority should note that LASAAC is currently consulting with the Scottish Government as to whether any impact as a result of lease reclassification on transition to IFRS will be neutralised. The Authority should keep a close watch on this matter.	▪ Assess and understand the guidance notes issued by PwC/CIPFA; ▪ Information gathering – an Authority wide lease and contracts register should be put in place. This may involve delegation and separate service area registers, with central co-ordination. Delegation and identification of a service area key contact would also assist with identification of lease arrangements which may not be formally documented in a contract;	CMcG/SMcL	Immediately – December 2009; July 2010 – September 2010; and April 2011 – June 2011

Step	Comments	Suggested key actions	Responsibility	Timing
9. Assess and resolve leases and lease arrangements accounting issues (continued)		▪ Establish a list of leases including values, payments and useful lives; ▪ Discuss with CIPFA/PwC potential materiality levels and agree with the External Auditors; ▪ Technical review – The Code will require leases to be reassessed. To maintain a clear audit trail, a template leasing assessment form could be used; the CIPFA/PwC team will be issuing the Authority with a leasing checklist and flow chart that the Authority can use for this purpose; ▪ Ensure that review covers both lessee and lessor situations; ▪ Appropriate staff will need to be identified to perform this review particularly for leases where there may need to be a significant level of judgement or technical knowledge. Determine any impact on the 'bottom line' as a result of any reclassifications;	CMcG/SMcL	

Step	Comments	Suggested key actions	Responsibility	Timing
9. Assess and resolve leases and lease arrangements accounting issues (continued)		▪ Identify lease arrangements where no formal contract or lease is in place (IFRIC 4); ▪ New leases – any new leases which the Authority enters into for 2009/10 should be assessed under both the SORP and the Code; ▪ Achievement of the above actions depends largely upon the Authority being able to identify all of its leases, and contracts and arrangements which may contain a lease.	CMcG/SMcL	
10. Assess and resolve group account accounting issues	The Authority should note the current discussions to clarify whether the Code applies to Common Good Fund financial statements and which timetable from transferring to IFRS that the Common Good Fund should follow.	▪ Assess and understand the guidance notes issued by PwC/CIPFA; ▪ The Authority should review all its Partnerships agreements and consider whether there are further subsidiaries and associates, and any joint ventures (including Common Good Fund) that should be considered for consolidation into the group accounts.	MS	Immediately – December 2009; July 2010 – September 2010; and April 2011 – June 2011

Step	Comments	Suggested key actions	Responsibility	Timing
10. Assess and resolve group account accounting issues (continued)		▪ Where criteria under the Code are met incorporate the subsidiaries, associates and joint ventures in the Authority's group accounts using the appropriate consolidation method; ▪ Engagement with the External Auditors – given the judgemental nature of the group boundary it will be important to gauge the views of the External Auditors; ▪ The Authority should consider the potential impact of the different calculation of the gain or loss on disposal of a subsidiary (where relevant) ▪ The Authority should assess the potential impact of the change to the consolidation of non-coterminous reported financial statements; ▪ Decide on format of Group financial statements; present alongside single entity accounts or produce separate group financial statements;		

Step	Comments	Suggested key actions	Responsibility	Timing
10. Assess and resolve group account accounting issues (continued)		▪ The Authority should consider an Authority wide database that records all the Authority's partnerships arrangements/relationships.	MS	
11. Assess and resolve other accounting issues & changes to systems and processes	The transition to IFRS may require a number of changes to specific areas that are not limited to the areas covered in the steps above in this action plan. These areas include: ▪ Impairment of assets; ▪ Cash equivalents; ▪ Intangible assets; and ▪ Operating segments.	▪ The Authority should refer to Appendix 2 for a full list of the International Standards (as adopted by the Code) and assess the changes required to the accounting treatment, and supporting systems and process, in order to restate the 1 April 2009 balances and 2009/10 comparatives.	JF/CMcG/SMcL DC/MS/AF	Immediately and throughout the project
12. Draft Code pro-forma financial statements and accounting policies	Managing the expectations of key stakeholders prior to the audit of the restated numbers will reduce the likelihood of late changes to the format of the accounts and additional work.	▪ Prepare the Code compliant skeleton document, including accounting policies, into which the IFRS numbers will be input. Circulate to those charged with governance and the External Auditors for review and comment;	JF	Immediately – March 2010

Step	Comments	Suggested key actions	Responsibility	Timing
12. Draft Code pro-forma financial statements and accounting policies (continued)		▪ Review current management accounting processes and procedures and the financial statements production process, as well as the system currently in place to ensure that there is the resource, capability and capacity to bring these in line with the requirements of the Code; ▪ 1 April 2009 balances and 2009/10 comparatives will need to be restated for the changes in accounting policy; ▪ Where there have been changes in accounting estimates, disclosure will need to be made of the nature and amount of the change that effects the current period or that is expected to have an effect in future periods;		

Step	Comments	Suggested key actions	Responsibility	Timing
12. Draft Code pro-forma financial statements and accounting policies (continued)		▪ Further to the review of the chart of accounts and systems in place the Authority should, under IAS 8 Accounting Policies, Changes in Estimates and Errors (as adopted by the Code), be performing a detailed review of the current accounting policies in place. The accounting policies should be reviewed in line with the Code, the information contained in this report and with reference to the principles of relevance, reliability and comparability. As a minimum the areas highlighted in red and amber in this report will need to be considered for changes in accounting policy.	BH	
13. Restate 1 April 2009 balances on an IFRS basis	The early completion of restating the 1 April 2009 balances will help flag up early any practical issues for restatement and any impact on the bottom line for budget purposes.	▪ Undertake numerical analysis to quantify the restatement journals: employee benefits, leases, capital and other IFRS adjustments; ▪ Engage with External Audit for assurance over the opening balance sheet;	JF	Immediately – February 2010

Step	Comments	Suggested key actions	Responsibility	Timing
13. Restate 1 April 2009 balances on an IFRS basis (continued)		▪ Prepare a working paper showing the 1 April 2009 SORP audited figures in the left column, the IFRS numbers in the right column and the movements between the two in a middle column; ▪ Each movement in the middle column should be supported by a further working paper and cross referenced into primary documentation; ▪ The Authority should consider how the movements in the balances will be recorded in the general ledger.	JF	
14. Restate 2009/10 transactions on an IFRS basis	As above	▪ As above, but the movements would be in relation to the 2009/10 transactions.	JF	October 2010 – December 2010
15. Embed accounting on an IFRS basis (2010/11 Accounts)	By setting up systems and processes 'right first time' it should be straightforward to continue accounting on an IFRS basis (as adopted by the Code) in order to produce the 2010/11 annual accounts that comply with the Code.	▪ Continue to develop systems and processes in respect of IFRS accounting.	JF	April 2010 – June 2011

5) The Way Forward

As outlined above, all Local Authorities in Scotland are obliged to convert to financial reporting under IFRS. You will be required to produce a full set of IFRS compliant accounts for 2010/11, commencing with an Opening Balance Sheet and financial impact assessment in 2009/10.

This new reporting regime will bring significant challenges for Local Government organisations, requiring revisions to accounting policies, changes in the format of financial statements and systems and a significant number of additional disclosures.

The IFRS transition project is a significant process. In addition to the general regional IFRS Mobilisation sessions in April and May 2009, the drafting and issuing of summary guidance notes on the key areas of the Code, and meetings with the key members of the Authorities IFRS implementation team, this report is designed to provide the Authority with the tools necessary to complete an accurate and timely IFRS compliant Opening Balance Sheet (as at 1 April 2009), and submit it to the Authority's External Auditors by the agreed deadline date of the 26th February 2010.

Upon receipt of this report the Authority should ensure the IFRS Transition Project Team accept and embrace the detailed Action Plan outlined at Section 4 above. It is also advisable to engage with stakeholders (the Audit Committee and External Audit) to ensure awareness and support of the resourcing requirements of the project, and achieve early agreement It will be important to monitor the achievement of the key milestones throughout the project in order for slippage to be identified and corrective action taken.

PwC and CIPFA will continue to provide the technical support and advice throughout the project, ensuring the key issues affecting the Authority are identified and considered.

We will also ensure the Authority continues to benefit from our experience of IFRS transition projects in both the Private and Public Sectors, and emerging issues across the Country are shared and dealt with on a consistent basis.

We also recommend that the Authority follows closely any developments involving the identification of any possible impacts on the General Fund and the proposals the Scottish Government might make to issue regulations allowing some or all of the impact to be neutralised.

We would like to thank the Authority's staff for their assistance in providing the information to enable this impact assessment to be carried out.

Appendix 1: Glossary of terms

We have set out in the table below an explanation of the terms used in this report. In some cases these definitions are simplifications of terms that are included in the international standards, as applicable to the Authority. For full definitions, please refer to the relevant international standards.

Financial instrument (IAS 32, IAS 39, IFRS 7)	A contract that gives rise to a financial asset in one entity and a financial liability in another entity.
Financial asset (IAS 32, IAS 39, IFRS 7)	Any asset that is: • Cash; • A contractual right to receive cash or another financial asset from another entity; or • A contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.
Financial liability (IAS 32, IAS 39, IFRS 7)	Any liability that is a contractual obligation to: • deliver cash or another financial asset to another entity; or • exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
Fair value (IAS 16, IAS 36, IAS 40, IFRS 5)	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The Code has interpreted fair value for the public sector context in some instances: • IAS 16, fair value is the 'existing use value' (for Council dwellings it is 'existing use value – social housing') • IAS 36, fair value is the 'market value' • IAS 40, fair value is the 'market value' for freehold property and held under an operating lease where the authority is acting as the lessor. Where the authority is the lessee the fair value is the 'lease interest' • IFRS 5, fair value is the 'market value'
Derivative (IAS 32, IAS 39, IFRS 7, IFRIC 9)	A financial instrument or other contract with all of the following characteristics: • its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or other variable (where that other variable is not specific to a party in the contract);

	• it requires no initial net investment or an initial investment that is smaller than would be required for other types of contracts that would be expected to have similar response to changes in market factors; and • it is settled at a future date.
Embedded derivative (IAS 32, IAS 39, IFRS 7, IFRIC 9)	An embedded derivative is a derivative that is included within another contract, e.g. a clause in a lease which specifies that the rental charges will be uplifted annually by the retail price index. An embedded derivative causes some or all of the cash flows required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or other variable (where that other variable is not specific to a party in the contract).
Closely related (IAS 32, IAS 39, IFRS 7, IFRIC 9)	The economic characteristics and risks of the embedded derivative are similar to the economic characteristics and risks of the host contract.
Joint Venture (IAS 1, IAS 31)	A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.
Equity Method (IAS 1)	An accounting method used to determine income derived from a company's investment in another company over which it exerts significant influence. Under the equity method, investment income equals a share of net income proportional to the size of the equity investment.
IFRS	The terms are used interchangeably throughout this document to refer to the body of accounting standards comprising: • International Financial Reporting Standards (IFRS); • International Accounting Standards (IAS); • Standard Interpretations Committee interpretations (SIC); • International Financial Reporting Interpretations Committee interpretations (IFRIC); and • International Public Sector Accounting Standards (IPSAS)

Appendix 2: Detailed analysis of accounting requirements

The differences between the 2009 SORP and the standards (as adopted by the Code), will drive the impact on transition to IFRS on the Authority's financial statements. Therefore the tables on the following pages set out these differences on a standard by standard basis together with the actions required (the actions include reference to considerations of potential changes to systems and processes). We have given a traffic light rating (in a colour-coded format set out in the table below) to the impact of the International Standards (as adopted by the Code), which indicates our view of the level of impact each will have for the Authority on transition to IFRS. The ratings are based on our understanding of the Authority's transactions as identified in the course of this review and can be linked to the ratings shown in the financial statements in section 2 of this report. There may be further transactions that we have not identified in this review and which will be significantly impacted by IFRS.

Key to table:

Red	Significant numerical impact expected and/or significant time required to undertake sufficient analysis in order to restate on an IFRS basis. Changes to underlying Balance Sheet values and impact on Income and Expenditure account
Amber	Some impact expected but mainly in the area of additional disclosures
Green	Minimal impact expected but some different/ additional disclosures likely
Blue	Not considered applicable to the Authority based on our present understanding

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IAS 1 – Presentation of Financial Statements	Chapter 3 Section 4	The Code has interpreted the requirements of IAS 1 by specifying the formats of the statements to ensure comparability, disclosures and terminology that is appropriate to local authorities. 'Income & Expenditure a/c' and 'STRGL' have been combined and called 'Comprehensive Income & Expenditure statement' (known as Comprehensive Income Statement under IAS 1). 'Balance Sheet' – no change in name but different layout & terminology used. SMGFB (under the SORP), subsumed in a new statement called 'Movement in Reserves Statement' (known as Statement of Changes in Equity under IAS 1). 'Cash Flow Statement' – no change in name but different layout & terminology used. The Code gives a format of the statements that presents the 'minimum level of detail' and authorities will be free to include more detail on the face of the statements if they require (thus potentially negating the need for some disclosure notes).	Review presentation. Identify changes required to coding & mapping structure and ledger code reports. For the first accounts to be published in 2010/11, the Authority will also need to restate the 2009/10 accounts. This will require an opening balance sheet as at 1 April 2009 to be prepared (in effect the closing 2008/09 balance sheet should be restated) and published as part of the 2010/11 accounts. In effect there will be three balance sheets in the 2010/11 annual accounts. With a note reconciling any material differences to the SORP for the balance sheets as at 1 April 2009 and 31 March 2010 and Comprehensive Income and Expenditure statement for 2009/10. There are changes to the categories used in the primary financial statements and potential for additional disclosures. The Authority will need to familiarise itself with the new format of the financial statements and provide adequate training for members and users to facilitate understanding. The Authority should consider the potential changes to systems and processes such as: • Potential coding structure changes on General Ledger. • Re-mapping of current ledger reports for I&E / Balance Sheet & SMGFB, STRGL to new formats. Consider extension of existing coding to capture IFRS specific adjustments where possible, rather than duplicating General Ledger structure with attendant reconciliation needs.	
IAS 2 – Inventories .	Chapter 5 Section 1	IAS 2 requires stock to be held at current cost (i.e. lower of cost or NRV). The Code also incorporates	The Authority disclosed a level of stocks/WIP in its 2008/09 unaudited accounts of £846,000; of which £837,000 relates to	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		additional measurements (as per IPSAS 12; where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be their fair value as at the date of acquisition. Inventories are to be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge; or consumption in the production process of goods that is distributed at no charge or for a nominal charge. IAS 2 does require implied interest on paying suppliers on deferred terms (i.e. where invoices are paid later than standard terms), to be recognised as an expense in I&E spreading this implied interest cost over the credit term. The SORP is silent on this issue although this measurement is implicit in FRS 26. The Code does not allow the use of LIFO cost formula. SSAP 9 Stock and Long Term Contracts refers to the use of last-in, first-out (LIFO) cost formula as one of the options to use as a basis for cost valuation for stock, although it discourages its use. The use of cost formula is not specifically stated in the SORP.	stock and £9,000 relates to WIP (see IAS 11). The basis of stock valuation being either; cost, latest invoice price, lower of cost or net realisable value or average cost. The accounting policy for stock and WIP acknowledges that the valuation basis other than the lower of cost and net realisable value is a departure from the SORP, but the difference is considered immaterial. IAS 2 is not significantly different to the requirements of the current SORP, however the Authority should; ▪ Discuss with the external auditor the current divergence from using the lower of cost and net realisable value for some categories of stock, and consider the continuation of this divergence having regard to materiality. ▪ Identify any stocks acquired through a non-exchange transaction and held for distribution at no charge or for a nominal charge; or consumption in the production process of a good that is distributed at no charge or for a nominal charge. ▪ Identify inventories that have been purchased on deferred settlement terms beyond normal credit period (typically 30 days). Determine method for deriving implied interest charge and account for this separately (need to consider materiality). ▪ Identify any stock using LIFO cost formula (this is unlikely as SSAP 9 discourages its use). The Authority should consider the potential changes to systems and processes such as: ▪ Review Stores system – to ensure the different measurement bases under the Code are incorporated in the system.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IAS 7 – Cash flow statement	Chapter 3 Section 4	IAS 7 requires cash flows to be reported under 3 sections: operating, investing & financing whereas the SORP require cash flows to be reported in far greater detail under 7 standard headings. SORP 2008 clarified the use of indirect method, therefore under the SORP and the Code the authorities have the option to use either the direct or indirect method. Interest Income & Expense is now shown under Financing Activities. Under the IFRS Code the cash flow statement shows the movement in the cash and cash equivalents, whereas under the SORP the movement was cash.	The Authority will need to comply with the concept of cash equivalents and restate the cash balance as required to include any cash equivalents. The standard suggests that short term deposits and investments due to mature within 3 months are to be included within the cash equivalents balance. The 2008/09 unaudited financial statements recorded £2.695m of investments (classified as current assets). The balance sheet note does not split this amount down into time periods. The Authority will therefore need to review its investments and verify whether any would fall under cash equivalents. If they do these amounts will need to be reclassified. The Authority should consider if the overdraft is an integral part of an authority's cash management. If it concludes it is it should be considered to be under the definition of 'cash equivalent' for the purposes of the cash flow statement, rather then being classified as 'borrowing' (and coming under the financial instrument standards) and included under the heading of financing activities' within the cash flow statement. It will also be necessary to amend the format of the cash statement, so that activities are classified as either operating, investing or financing rather than the current nine headings. The Authority should consider the potential changes to systems and processes such as: ▪ Re-mapping of current ledger reports of cash flow statement to new format. This may require additional analysis of codes by cash flow classification in General Ledger depending on method used to derive cash movements. ▪ Minor changes to the presentation on the face of the Balance Sheet.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IAS 8 – Accounting policies, changes in estimates and errors	Chapter 3 Section 3	IAS 8 makes no distinction between fundamental errors and other material errors; all material errors have to be corrected by retrospective restatement, which may lead to restatements be required to be made more frequently. More detailed disclosures are required including the impact of changes to accounting policies that will be required to implement new accounting standards that have been issued but not yet come into effect. Further editions of the Code may therefore prescribe retrospective disclosure requirements relating to changes to accounting policies.	The Authority should review its accounting policies and change these as necessary with reference to the principles of relevance, reliability and comparability. Examples of areas of requiring policy change include: ▪ The calculation of employee benefits accruals. ▪ The approach to recognising and accounting for PPP / PFI arrangements. ▪ Changes in accounting for leases. Comparatives and opening balances are to be restated for changes in accounting policy. Transition project should be used as an opportunity to cleanse existing errors and so minimise the need for future restatements. All material errors require prior year adjustment to ensure comparability (not just "fundamental errors" as under UK GAAP). This may lead to more prior year adjustments in respect of the correction of errors. Changes to accounting policies and estimates and any retrospective and future effects that can be practicably identified require greater disclosure. Most changes in estimates are unlikely to have a material impact on future periods, with the exception of asset lives revisions and provision discounting for which it should be possible to calculate and disclose the expected impact. The Authority should consider the potential changes to systems and processes such as: ▪ Compile a list of standards which have not yet been adopted and keep up to date, with their impact being assessed for appropriate disclosure in the financial	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			statements under IAS 8.	
IAS 10 – Events after the Balance Sheet date	Chapter 3 Section 8	No significant differences.	A review of IAS 10 has shown that it is almost identical to the current UK GAAP standard FRS 21 therefore no significant changes will be required.	
IAS 11 – Construction contracts	Chapter 5 Section 2	IAS 11 applies to all construction contracts in the financial statements of contractors and therefore only applies to construction that the Authority is undertaking for its customers. This section of the Code does not apply to assets under construction (i.e. where the Authority is the customer rather than the contractor). The SORP includes the broader scope of SSAP 9 Stock and Long Term Contracts, which includes contracts for the 'provision of services'. Contracts for the provision of services which are directly related to the construction of the asset are covered by IAS 11 (for example the services of project managers and architects). Provision of services other than those directly relating to the construction of the asset are covered by IAS 18 (see Revenue Recognition below, which refers back to the principles in IAS 11). As a result there is expected to be no differences with regard to the accounting of contracts for the 'provision of services'. The SORP follows a similar approach to the 'percentage of completion method' with the adoption of FRS 5 Application Note G Revenue Recognition which allows a similar method, but specifically only permits revenue to be recognised once the Authority has obtained the right to	The Authority disclosed a level of stocks/WIP in its 2008/09 unaudited accounts of £846,000; of which £837,000 relates to stock (see IAS 2) and £9,000 relates to WIP. Work in progress is valued at 'the cost of work completed to 31 March'. The Authority has two statutory 'internal trading account'; Building Maintenance and Roads Maintenance which are classified as "significant trading operations" (STO). The Authority also maintains two 'non-statutory internal trading accounts'; Schools and Welfare Catering, and Building Cleaning. The definition of construction contracts as adopted by the Code includes 'the restoration of assets' and therefore encompasses Building Maintenance and Roads Maintenance. It is considered that the internal work carried out for Council departments (as well as any external work carried out) by these two trading accounts, should follow the requirements of IAS 11 (as adopted by the Code).However, material balances on trading accounts for work provided internally to the authority should be reapportioned on consolidation within the authority's single entity accounts. The requirement for reapportionment of material surpluses or deficits on STO's is referred to in the LASAAC guidance (section 11 refers), the link to this guidance is; http://www.cipfa.org.uk/scotland/technical/lasaac_guidance.cfm.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		consideration as a result of performing an identifiable element of its contractual obligations. The Code may therefore allow earlier recognition of contract revenue however this is not expected to be common.	This principle of the reapportionment of material surplus and deficits is reaffirmed in BVACOP. The Schools and Welfare Catering, and Building Cleaning are 'provision of services' and are therefore covered by IAS 18 (as adopted by the Code) which refers back to the principles in IAS 11 (as adopted by the Code). There is however no significant differences between the SORP and the Code, but the Authority should ensure that the revenue is only recognised 'once the Authority has obtained the right to consideration as a result of performing an identifiable element of its contractual obligations'.	
IAS 12 – Income taxes Other references: SIC 21 - Income taxes – recovery of non-depreciable assets SIC 25 - Income taxes – changes in the tax status of an entity or its shareholders.	Appendix A	*Current tax:* IAS 12 requires current tax to be presented separately on the face of the balance sheet. Current tax is to be charged directly to equity if it relates to items that are charged/ credited directly to equity. *Deferred tax:* IAS 12 is conceptually different to FRS 19, in particular taxable temporary differences, recognition of revaluation gains and discounting. IAS 12 requires a reconciliation of the current and deferred tax charge.	As the Authority does not pay income taxes directly IAS 12 is not relevant, to the Authority's single entity accounts. However, it will be relevant to the Authority's group accounts and where the entities being consolidated do not account under IFRS, the Authority may need to consider restatement.	
IAS 16 – Property, Plant and Equipment (PPE)	Chapter 4 Section 1	*Revaluations* Clear distinction between revaluation loss (under IAS 16) and impairment loss (under IAS 36), in terms of events that create the respective losses and hence the separate recording in the General Ledger Coding Structure.	*Revaluations* The adaptation by the Code of fair value being based on the amount that would be paid for the asset in its existing use should mean that valuation basis for PPE should not differ from current practice. The Authority has a rolling revaluation programme, with	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		Component Accounting Component accounting required where the value of the component is significant compared to the total value of the asset, and the asset life/depreciation method or residual value of the component differs from the asset life/depreciation method or residual value for the remaining component(s) of the total asset. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. Where non-significant components with differing useful lives are treated as one asset the depreciation method should reflect the consumption pattern of the various parts (for instance by using a 'weighted average' useful life). Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount (even if the component is not recognised as a separate component). The Authority should note that the requirement of component accounting as described above is prospective from 1 April 2010, as set out in the Code. *Residual Values* The Code requires residual values to be based on current prices at the balance sheet date. The SORP defines residual values as being based on prices prevailing at the date of the acquisition (or revaluation) of the asset and does not take account	material changes to asset valuations adjusted in the interim years as they occur, and this is not impacted by the introduction of IFRS. It is assumed that the rolling programme is no longer then the five-year period stated in the Code and therefore there will be no affect on the transition to IFRS. Set up subjective General Ledger code for 'Revaluation Losses'. Identify in 2009/10 reductions in revaluations charged to surplus or deficit on provision of services that were classified as impairment losses in the subjective analysis, which under the Code are classified as revaluation losses. Amend classification within service analysis and disclosure notes. The Authority should also note the potential impact on the Revaluation Reserve as a result of restatements of impairment losses (IAS 36), investment property (IAS 40) and assets held for sale (IFRS 5). These actions required in respect of these potential transition issues are shown against the relevant standards in this table. *Component Accounting* IAS 16 requires significant components of assets to be depreciated separately. The Authority's accounting policies do not include reference to component accounting therefore it is assumed that this practice is currently not taking place. The Authority will need to be able to identify components when enhancements or revaluations take place. The Authority will need to be able to revalue components of an asset valued at current value rather than at historic cost. The Authority will need to be able to derecognise component of an asset when removed and recognise new component. The derecognition needs to take place irrespective of whether the	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		of future price changes. Likely only to affect assets valued at historical cost (in reality this is expected not to be a significant issue for authorities because residual values of most fixed assets are immaterial or represent the value of the land (which are re-valued as part of the rolling programme of revaluations). Renewals Accounting is not allowed under the Code.	old component is separately identified in the fixed asset register – as a result the Authority will need to construct and apply suitable apportionment basis. The Authority will need to consider the practicalities of component accounting on property. The Authority should be aware of on-going discussion between CIPFA and RICS on application of Component Accounting to property valuations. The purpose of these discussions is to establish the level to which robust and accurate valuations can be attributed to asset components. The Authority should discuss with their external auditors what is considered 'significant' and what level of components the Authority's valuers can provide robust and accurate valuations (ie structure, land and engineering). Valuers should be engaged at an early stage as any valuations undertaken from 1 April 2010 will need to separately account for significant components. 2010/2011 Capital Programme to be based around new processes. *Residual Values* Review residual values and update if required and assess impact of changes on depreciation. The Authority should keep a close watch on the published Code because the consultation proposed that FRS 30 Heritage Assets would be incorporated in the published Code. FRS 30 would require the Authority to provide addition disclosures with regard to its heritage assets. The Authority should consider the potential changes to systems and processes such as: ▪ Asset Management System – changes required to clearly distinguish between revaluation losses and impairment	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			losses and record components of an asset for depreciation purposes and derecognise an old component and recognise new component in relation to subsequent replacement and enhancement expenditure. ▪ Capital Programme; more detail required to identify components. ▪ General Ledger Coding Structure; to record components, and record revaluation losses separately from impairment losses.	
IAS 17 – Leases Other references: SIC 15 - Operating lease incentives SIC 27 - Evaluating the substance of transactions involving the legal form of a lease IFRS 4 - Determining whether an arrangement contains a lease.	Chapter 4 Section 2	The definitions of operating and finance leases in IAS 17 are similar to those in SSAP 21; however the 90% test in SSAP 21 does not appear in IAS 17. Leases of property must be separated into leases of land and leases of buildings, and classified separately. There is a presumption that leases of land are operating leases unless title passes at the end of the lease term. Lease incentives must be spread over entire lease term under IAS17 rather than to first break clause (SSAP21). However, where management record that it is their intention not to renew a lease then the incentive can be spread over the shortened term. Income recognition for finance leases may be different to that under the SORP. The Code requires finance income from a finance lease to be calculated so as to produce a constant periodic rate of return on the net investment. Under the SORP, the finance income was previously calculated so as to give a constant periodic rate of return on the net cash investment.	The Authority has various operating leases where it is the lessee; 84 leases are in respect of various land and buildings (it should be noted that these leases are not included in the lease disclosure note in the 2008/09 unaudited accounts), 3 leases (4 from 2009/10) are in respect of investment property which are leased out, 16 leases are in respect windows for the HRA and 9 leases in respect of vehicles. In 2008/09, the payments to lessors totalled £3.927m (excluding the 84 leases in respect of land and buildings), of which £2.409m is in relation to HRA (windows), £319k for vehicles and £1.199m for investment property. The Authority will need to have regard to the changes in the definition and accounting treatment of investment property (see IAS 40). The Authority currently does not have any finance leases in which it is the lessee. The Authority has numerous operating leases in which it is the lessor, these assets are classified primarily as investment property, and again the Authority will need to have regard to the changes in the definition and accounting treatment of investment property (see IAS 40). The Authority does not currently have any finance leases where it is the lessor. The Authority has recently recorded all property leases in a central database and is currently compiling a similar database for vehicles, plant and equipment.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		Finance lease interest payments/receipts are determined using the Effective Interest rate method - sum of digits method is not permitted under IAS17/IAS39. The Authority should note that LASAAC is currently consulting with the Scottish Government as to whether any impact as a result of lease reclassification on transition to IFRS will be mitigated by legislative requirements, so there is no impact on the 'bottom line' for council tax purposes. The Authority should keep a close watch on this matter.	A review of leases should be performed against the classification criteria within the Code. If assets are re-categorised, attempt to restate accounting entries from date of inception of lease. The Authority should ensure they use the approach for the review as set out in the lease guidance that the CIPFA/PwC team will be issuing to the Authority. Check that any lease incentives (e.g. rent free periods, discounted rental periods or peppercorn rent periods, rent rebates, etc.) are correctly accounted for (having regard to materiality) - reversing historic incentives spread over a term shorter than the lease agreement and spreading over entire lease term in accordance with IAS 17. *Land and Buildings Split* The Authority will need to account separately for land and buildings held under leases and will need to review the classification of its leases. It is noted that the Authority currently has land and buildings leases classified as operating leases in its capacity as lessor and lessee. The Authority will have to consider this requirement for any future leases for land and buildings. *Arrangements Containing a Lease* The Authority should also review its wider contracts and arrangements which may not be in legal form a lease, against the requirements of IFRIC 4 'Arrangements which may contain a lease.' There may be further arrangements to be accounted for under IAS 17. The substance of the arrangement must be assessed. The following are examples of issues that should be considered: ▪ Is fulfilment of the arrangement dependant on the use of a specific asset or assets?	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			▪ Does the arrangement convey the right to use an asset? The Authority should also consider other arrangements which may not be formally documented in contracts that may in substance contain a lease under the requirements of IFRIC 4, which should then be accounted for under IAS 17. The Authority should note that the Code adopts First Time Adoption exemption under IFRS1 regarding use of the facts and circumstances exiting at date of IFRS transition when determining whether an arrangement existing at the date at the transition date contains a lease (under IFRIC 4). Any changes in accounting treatments will need to be assessed carefully for their potential impact on revenue and capital budgeting and prudential indicators. Transactions that may be impacted by SIC 27 are, for example, sale and leaseback arrangements. The Authority will however need to consider this interpretation as part of its lease review exercise. The Authority should consider the potential changes to systems and processes such as: ▪ Ensure correct classification of lease agreements and include reclassifications to finance leases (where the Authority is the lessee) or operating leases (where the Authority is the lessor) are included in the Asset Management system. ▪ It is noted that the Authority does not currently have a definitive central leases or contracts register. The Authority should consider that these registers are put in place to assist this review. This could involve delegation and separate service area registers, with central co-ordination.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IAS 18 – Revenue Other references: SIC 31 - Revenue – Barter Transactions Involving Advertising Services IFRIC 13 - Customer Loyalty Programmes IFRIC 15 - Agreements for the Construction of Real Estate	Chapter 2 Section 7, Chapter 5 Section 3 & Chapter 8 Section 1	Financial assets relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses measured under IAS 39) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.	There are no significant differences between the SORP (FRS 5 Application Note G) and the Code. However it is recommend that the Authority review its revenue recognition accounting policies (i.e. income, debtors and creditors) to ensure that they are Code compliant.	
IAS 19 – Employee benefits	Chapter 6	*Benefits payable during employment:* Under IAS 19, there is a requirement to accrue for untaken holiday pay (including flexi-time) for which staff are entitled, but which has not yet been used at the balance sheet date. The accounting treatment of; Other long term employee benefits (ie long term disability benefits), termination benefits and post employment benefits under the Code (which adopts IAS 19 and IPSAS 25) contain minor differences than under the SORP (which follows FRS 17). The minor changes are: ▪ Long term disability benefits; actuarial gains and losses are required to be recognised immediately in Surplus or Deficit on provision of services. However where the presumption that long term disability benefits are not to be	*Holiday Pay Accrual (Benefits payable during employment):* The accrual should be broadly calculated as the number of unused holiday hours for each staff member at the year end, multiplied by their hourly rate (including on-costs). Agreement will need to be reached on a method of valuing this accrual, in line with the requirements of the Code. The Authority should ensure they understand and use the Guidance Notes and Sampling Guidance that the CIPFA/PwC team will be issuing to the Authority. *Post Employment (Retirement) benefits:* Whilst the only defined benefit pension scheme is the funded Local Government Pension Scheme, the Teachers Superannuation Scheme is currently a defined benefit scheme that is accounted for as though it were a defined contribution scheme under FRS 17. FRS 17 and IAS 19 are similar in their rules regarding the	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		subject to the same degree of uncertainty as the measurement of post employment benefits, can be rebutted, an authority shall consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post employment benefits (ie actuarial gains and losses are required to be recognised in Other Comprehensive Expenditure and Income. ▪ Post Employment Benefits; The Code prohibits the use of the corridor approach on recognition of the actuarial deficit or surplus. *Termination benefits:* The minor changes are: ▪ Termination benefits; Under the SORP the 'added years' or other pension enhancement was recognised in the Income and Expenditure Account on a straight-line basis over the period in which the increase in benefit vests .The Code in accordance with IAS 19 requires termination benefits to be charged to the surplus or deficit on provision of services immediately whether they vest immediately or not. In practice in local authorities pension enhancements granted for termination of employment would usually vest immediately and so under the SORP would usually be charged to Income and Expenditure Account immediately. The Authority should note that LASAAC is currently consulting with the Scottish Government as to	measurement and disclosure of retirement benefits therefore we expect few differences in applying this standard, although there are some differences in the standards for the recognition of actuarial gains and losses. The Authority should consider checking on the existence of long term disability benefits payable to current or past staff and assess whether these need to be reclassified i.e. actuarial gains and losses are recognised in the surplus or deficit on the provision of services (i.e. the presumption in the Code cannot be rebutted in accordance with IPSAS 25). *Benefits payable during employment/termination benefits:* IAS 19 covers other non-retirement benefits such as bonuses, sick pay, long service awards and redundancies. As a result, the Authority should review its current treatment of such benefits against the detailed requirements of the Code.. General accounting issues arise on adoption due to: ▪ valuation problems linked with some forms of employee benefits (e.g. non-monetary accumulated benefits such as medical insurance); and ▪ the timing of benefits, which may not always be provided in the same period as the one in which the employee's services are provided. The Authority needs to consider what other benefits may be impacted by the requirements of the Code. The main area that could give rise to a material adjustment is holiday pay accruals (both core and accrued flexi leave entitlements) as discussed above. Although it appears that the holiday pay will be the biggest challenge to the Authority under this standard (as adopted by the Code), consideration must be given to other employee	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		whether the accounting under IAS 19 (as adopted by the Code) will be mitigated by legislative requirements, so there is no impact on the 'bottom line' for council tax purposes. The Authority should keep a close watch on this matter.	benefits including bonuses, long service awards and redundancies where benefits arise but are not paid within the accounting period. The Authority should consider the potential changes to systems and processes such as: ▪ The use of an Authority Wide database to record holiday pay.	
IAS 20 – Accounting for Government Grants and disclosure of Government assistance Other references: SIC 10 – Government Assistance – No specific relation to operating activities	Chapter 2 Section 3	CIPFA/LASAAC is currently consulting on this issue. Two options have been proposed:- 1) Capital grant is deferred and matched against the useful economic life of an asset. This is consistent with current SORP arrangements and IAS 20. 2) Capital grant is recognised immediately as income in the Income and Expenditure statement. This is in line with IPSAS 23. CIPFA/LASAAC is minded to adopt option 2.	The Authority receives significant capital grant income. In 2008/09 the Authority had deferred capital grants totalling £28.174m. Should option 1 be adopted there will be little impact for the Authority as grants will continue to be treated in line with current SORP arrangements. Should option 2 be adopted, there will be a significant change in the 'Surplus/ Deficit on Provision of Services' reported by the Authority. However, it should be noted that this will not impact on funding/Council tax. The Authority should keep a close watch on this matter.	(cannot be determined at the present time)
IAS 21 – The effects of changes in foreign exchange rates Other references: SIC 7 - Introduction of the Euro	Appendix A	No significant differences.	We understand that the Authority does not transact in foreign currency. The Financial Instruments note states; 'The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates'.	
IAS 23 – Borrowing	Chapter 4 Section	CIPFA is currently consulting on this and proposes	The Authority currently does not capitalised borrowing costs.	(cannot be determined

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
Costs	8	the following three options:- 1) Continue to permit the option of capitalising borrowing costs where the asset is produced over a period of time, and the authority has an accounting policy of capitalising borrowing costs. 2) Expense borrowing costs as they are incurred – this would be in line with the FREM, and Nation Accounts. Under this option, the current option under the SORP that permits borrowing costs to be capitalised will be withdrawn. 3) Capitalise borrowing costs directly attributable to qualifying assets. Under this option, all authorities would be required to capitalise borrowing costs. CIPFA/LASAAC is minded to adopt option 2.	The Authority should keep a close watch on this matter.	at the present time)
IAS 24 – Related party disclosures	Chapter 3 Section 9	The Code interprets IAS 24 by adopting IPSAS 20 which states that providers of finance and trade unions are deemed not to be related parties where they only interact with an authority in the normal course of their business / dealings. In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party.	Review current related parties note to identify whether changes are needed in particular in relation to the parties that the Code do not deem as related parties.	
IAS 26 – Accounting and reporting by Retirement Benefits Plans	Chapter 6	The Code requirements are compatible with the SORP requirements except that the Code in accordance with IFRS 1 requires authorities that administer pension funds to disclose an opening	The Authority is the administering authority for the Falkirk Pension Fund. It is does not administer the Teachers Pension Scheme (this is undertaken by the Scottish Government).	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
.		IFRS Net Assets Statement at 1 April 2009, and the Code in accordance with IAS 26 requires the pension liabilities of the pension fund as a whole to be disclosed.	The Authority should comply with IAS 26 (as adopted by the Code) with regard to the Falkirk Pension Fund. The Authority should ensure it produces an opening IFRS Net Assets Statement at 1 April 2009, and discloses the pension liabilities of the pension fund as a whole.	
IAS 27 – Consolidated and separate financial statements Other references: SIC 12 – Special purpose entities	Chapter 9	IAS 27 is broadly similar to the SORP, but there are minor differences to the definition of the group boundary, and the consolidation period: ▪ The definition of control is broad and includes Special Purpose Entity (e.g. charities) where the Authority has decision making powers that ensure it benefits from the activities of the SPE. ▪ The Code allows consolidation of non-coterminous reported financial statements where the subsidiary period end is within three months of the period end of the authority. The SORP permits consolidation of the subsidiary reported results where their period end is no more then three months before the authority's reporting year end. The calculation of the gain or loss on disposal of a subsidiary differs. Under the Code, it excludes goodwill previously written off to reserves. Under the SORP goodwill previously written off to reserves is included in the calculation of the gain or loss on disposal. The Authority should note that consolidation of charities within a reporting authority's Group Accounts is being considered as part of a wider public sector standard approach. When an approach is agreed this will be incorporated into the	Currently the Authority's interests are in relation to joint boards, as such the investment is recorded at nil cost and Falkirk Community Stadium Ltd with the investment being recorded at £3.110m. The Authority's interests in companies and other entities are measured at cost which is the same as required under the Code. It is acknowledged that following the reconstruction of Falkirk Community Stadium Ltd (with effect from 28 May 2009) this investment is being replaced by other assets (the Post Balance Sheet note in the unaudited 2008/09 annual accounts refers). The Authority currently does not consolidate any subsidiaries into its group accounts. The Authority acts as sole or custodian trustee for a number of trust funds. These trust funds are not consolidated into the Authority's group accounts. The Authority should keep a watch on the review currently being carried out in respect of a wider public sector standard approach to the consolidation of charities/Trust funds. The Authority should consider the potential impact of the different calculation of the gain or loss on disposal of a subsidiary (where relevant) and the potential impact of the change to the consolidation of non-coterminous reported financial statements. The Authority should review all its Partnerships agreements and consider whether there are further subsidiaries that should be considered for consolidation into the group accounts although it should be noted that there are only minor differences to the 'Group boundary' in respect of subsidiaries. Where criteria under the Code are met incorporate the	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		Code. The Authority should keep a close watch on this matter.	subsidiaries in the Authority's group accounts using the appropriate consolidation method. Decide on format of Group financial statements; present alongside single entity accounts or produce separate group financial statements. The Authority should consider the potential changes to systems and processes such as: ▪ The use of an Authority Wide Database for Partnership Agreements/ Relationships.	
IAS 28 investments in associates	Chapter 9	The Code is likely to result in the same accounting treatment of associates as the SORP as a result of an adaptation of IAS 28 in terms of gains or loss of the investment in an associate are not reflected in the Authority's single entity accounts. The SORP's definition of an associate focuses on 'the ability to exercise' significant influence whereas under the Code the focus is on the 'power to participate in the financial and operating policy decisions of the investee'. This could mean some differences in interpretation of those entities brought into the group accounts. The Code allows consolidation of non-coterminous reported financial statements where the associate period end is within three months of the period end of the authority. The SORP permits consolidation of the associate reported results where their period end is no more then three months before the authority's reporting year end.	The Authority consolidates four associates into the group accounts; Central Scotland Joint Fire and Rescue Board, Central Scotland Joint Police Board, Central Scotland Joint Valuation Board and Falkirk Community Stadium Ltd (FCSL). However, during the current financial year, FCSL was reorganised. A new relationship now exists (from 28/5/09) in that the Council owns 100% of the share capital of Falkirk Community Stadium (Holdings) Ltd, which in turn owns 100% of the share capital of Falkirk Community Stadium Ltd. The Authority should review its Partnerships agreements/ relationships with third parties against the requirements of the Code to identify whether there are further associates that should be considered for consolidation into the group accounts, paying particular attention to the Authority's 'power to exercise significant influence' as defined in the Code. Where criteria under the Code are met incorporate the associates in the Authority's group accounts using the appropriate consolidation method. The Authority should note the balance sheet presentation of investments in Joint Boards; where the authority has negative balances in respect of individual associates e.g. Police and Fire Boards, the authority shall include any such associates	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			with a net negative balance in a separate 'liabilities in associates' line. The Authority should consider the potential impact of the change to the consolidation of non-coterminous reported financial statements. The Authority should consider the potential changes to systems and processes such as: ▪ The use of an Authority Wide Database for Partnership Agreements/ Relationships. Although not a specific IFRS transitions issue, the Authority may wish to consider classifying the 'Capital advance to Central Scotland Joint Fire and Rescue Board' as 'Investments in Associates and Joint Ventures'.	
IAS 29 Financial reporting in hyperinflationary economies Other references: IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial	Appendix A	HM Treasury will notify classification of the economy as hyperinflationary if appropriate.	N/A - the Authority does not have any foreign subsidiaries, associates or joint ventures in hyperinflationary economies, and we would not class the UK economy as being hyperinflationary.	
IAS 31 – Interests in Joint Ventures (JVs) Other references: SIC 13 - Jointly controlled entities – non monetary contributions by	Chapter 9	IAS 31 has a wider definition of joint ventures than the SORP, and includes joint arrangements that are not entities (JANEs); jointly controlled operations and jointly controlled assets. The consolidation arrangements are different to the SORP: ▪ Under the SORP, joint ventures are defined as 'an entity in which the reporting authority has	Joint Ventures – The Authority currently consolidates one joint venture into the group accounts- the Common Goods Fund The Authority should ensure there is no impact on the method of consolidation; under the SORP a jointly controlled entity was consolidated using the gross equity method, whereas under the Code the consolidation method is either equity or proportionate consolidation. However, it is assumed that the Common Good	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
Venturers.		an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement'. The Code defines joint ventures as 'a contractual or binding arrangement whereby two or more parties undertake an activity which is subject to joint control'. The SORP's definition is therefore narrower than the Code, which could mean some differences in interpretation of those entities brought into the group accounts. ▪ The SORP requires the use of the gross equity method for the consolidation of jointly controlled entities. The Code requires the use of proportionate consolidation or equity method The Code allows consolidation of non-coterminous reported financial statements where the joint venture's period end is within three months of the period end of the authority. The SORP permits consolidation of the joint venture's reported results where their period end is no more then three months before the authority's reporting year end. The Authority should note the current discussions to clarify whether the Code applies to Common Good Fund financial statements and which timetable from transferring to IFRS that the Common Good Fund should follow.	Fund was not classified as jointly controlled entity and as such there should be no impact on transition. The Authority should review its Partnerships agreements/ relationships with third parties against the requirements of the Code to identify whether there are joint ventures; jointly controlled entities, operations or assets that should be considered for consolidation into the group accounts. The Authority should consider the potential impact of the change to the consolidation of non-coterminous reported financial statements. The Authority should consider the potential changes to systems and processes such as: ▪ The use of an Authority Wide Database for Partnership Agreements/ Relationships.	
IAS 32 - Financial Instruments: Presentation Other references:	Chapter 7	No significant differences.	The Authority will have implemented the financial instruments standards in the 2007/08 annual accounts under the SORP. The applicable standards are largely IFRS-compliant therefore no impact will be expected on transition to IFRS.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments				
IAS 33 Earnings per share	N/A	N/A – IAS 33 is not relevant to local authorities and has therefore not been included in the Code.	N/A – IAS 33 is not relevant to local authorities and has therefore not been included in the Code.	
IAS 34 Interim financial reporting Other references: IFRIC 10 Interim financial reporting and impairment	N/A	N/A – IAS 33 is not relevant to local authorities and has therefore not been included in the Code.	N/A – IAS 33 is not relevant to local authorities and has therefore not been included in the Code.	
IAS 36 – Impairment of assets	Chapter 4 Section 7	Impairments must be charged to revaluation reserve where the impaired asset has been re-valued in the past, irrespective of reason for impairment. Once the balance on the revaluation reserve is used up, the residual impairment charge is taken to the surplus or deficit on provision of services. There is no longer a specific requirement to automatically undertake an impairment assessment each year for assets when either; (a) no depreciation charge is made on the grounds that it would be immaterial (either because of the length of the estimated remaining useful life or because the estimated residual value of the fixed asset is not materially different from the carrying amount of the asset), or (b) the estimated remaining useful life of the fixed asset exceeds 50 years. The Code does not exempt non-depreciable land	The movement in the tangible fixed asset notes shows impairment losses for 2008/09 totalling £39.177m. It is unclear if any of the impairment was due to the consumption of economic benefit that occurred on fixed assets that had a balance on their Revaluation Reserve. The note does not show any reversals of previous impairments. No adjustments are required to the Authority's opening balance sheet in relation to impairments as the 2009 SORP required an adjustment between the Revaluation Reserve and the Capital Adjustment Account that matches the adjustment that would otherwise be required on transition to the Code. However, the Authority should identify impairments in 2009/10 that arose on an asset previously re-valued, where a consumption of economic benefit has occurred. Reverse these from surplus or deficit on provision of services to the extent that the impairment charge can be made against the Revaluation Reserve balance for the specific asset. The Authority should identify reversals of impairments due to	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		from impairment reviews.	consumption of economic benefit in 2009/10 (this will only be required when the original impairment loss was based on a previous re-valued asset and the subsequent gain is in excess of the historic cost as it would have been without the original impairment (adjusted for depreciation that would have been applied). The Authority should consider the potential changes to systems and processes such as: ▪ Asset Management System; changes required to clearly distinguish between to revaluation losses and impairment losses. ▪ General Ledger Coding Structure; to record impairment losses separately from revaluation losses.	
IAS 37 – Provisions, contingent liabilities and contingent assets Other references: IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 5 - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Chapter 8 Section 2	No significant differences. Provisions under the SORP were classified as long-term liabilities. Under the Code provisions are presented on the face of the balance sheet as either current or non-current liabilities Long-term provisions shall be calculated by discounting the expected future cash flows to the reporting date (this was not explicit in the SORP).	Within the 2008/09 unaudited annual accounts the Provisions as at 31 March 2009 total £5m. The provision relates to Equal Pay Claims, Under IAS 1 the Authority should be aware that provisions must be split between current and non-current, with these categories being shown separately on the face of the balance sheet. Where provisions are expected to be realised after more than one year they will need to be discounted, in the event that the time value of money is material. The 2008/09 unaudited annual accounts include reference to two contingent liabilities; Falkirk Schools Project (£62.2m as at 31 March 2009) and Equal Pay claims (no amount is given). Under IFRIC 1 where any decommissioning costs are identified these will need to be capitalised and depreciated over the asset's remaining useful life.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IFRIC 6 - Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment				
IAS 38 – Intangible assets Other references: SIC 32 - Intangible assets - web site costs	Chapter 4 Section 5	Any intangible asset that has previously been recognised under the provisions of the SORP will meet the recognition criteria of IAS 38. Authorities can therefore continue to recognise all intangible assets that were previously recognised on their balance sheet. The principal change is the recognition of internally generated assets if strict criteria under IAS 38 are met. Provided these criteria are met, an authority may recognise an internally generated intangible asset. The generation of the asset is sub-classified into (i) a research phase and (ii) a development phase, with the expenditure associated with research phase being written off as incurred and expenditure associated with the development phase capitalised only after it has become probable that the expected future benefits attributable to the asset will flow to the authority. Because the Code (following IAS 38) recognises a wider range of intangible assets than the SORP, it is possible that expenditure in previous years that could have been recognised as an intangible asset had the Code applied at the time was not so recognised under the SORP, but was charged to the Income and Expenditure Account (and therefore to the General Fund).	The Code does not significantly impact on the treatment of purchased intangible assets. The Authority should however still be aware of the potential impacts of IAS 38 as adapted by the Code. IAS 38 now requires entities to capitalise internally generated intangible assets provided relevant criteria are met. Under UK GAAP, there was an option to capitalise. Within the 2008/09 unaudited annual accounts the carrying amount of intangible assets as at 31 March 2009 is £259k (software licences and the Authority's email system) on a valuation basis of amortised historic cost. The Authority should consider whether there are other items which would meet the criteria for capitalisation. Furthermore, the Authority should also consider SIC 32 in connection with the capitalised web site costs. The Authority should review classification of internally developed intangible assets (exclude licences for software dedicated to individual pc's and continue to capitalise these under Tangible Fixed Assets) & consider any changes required to classification. The Authority should note that it is anticipated that External Audit will take a strict view on internally generated intangible assets, especially in relation to previous work being restated – therefore the Authority will need a lot of detail/ evidence to support the capitalisation of previous revenue expenditure.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		The SORP stated that there was a rebuttable presumption that the economic lives of intangible assets are limited to periods of 20 years or less. No such presumption is now made in the IFRS Code.		
IAS 39 – Financial Instruments: Recognition and Measurement Other references: IFRIC 9 - Reassessment of Embedded Derivatives IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	Chapter 5 Section 3, Chapter 7 & Chapter 8 Section 1	No significant differences.	The Authority will have implemented the financial instruments standards in the 2007/08 annual accounts under the SORP. The applicable standards are largely IFRS-compliant therefore no impact will be expected on transition to IFRS. Although not a specific IFRS transition issue, the Authority should note that the current interest portion of long-term investments should not be as a 'long term' investment/asset, it should be shown as a current asset. Conversely, the current interest portion of long-term liabilities should not be shown as a 'long term' liability, it should be shown as a current liability. The Authority should also note that the Code includes interpretations of IAS 39 in respect of financial assets (i.e. debtors) and financial liabilities (i.e. creditors); 'financial assets/ financial liabilities relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses)/ payable as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates'. Whilst this requirement was implicit in the SORP, the Authority should consider adding this to the financial instruments accounting policy. The Authority should note that there should be an accounting policy relating to 'impairment of financial assets' as opposed to 'bad debt provisions' and it should refer to IAS 39 (FRS 26 for the 2009/10 annual accounts) because the measurement of the debtors comes under this standard. Although it should be noted that the measurement basis should not change.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
IAS 40 – Investment Property	Chapter 4 Section 4	Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property under the Code, and is accounted for as Property, Plant and Equipment (IAS 16). The Code requires investment properties to be measured at fair value or at cost where the fair value cannot be reliably determined. The SORP requires them to be carried at market value therefore there is likely to be no difference in valuation. The Code requires investment property held under a lease to be valued at fair value (lease interest). Investment property under construction is measured at fair value where the fair value can be measured reliably otherwise they are measured at cost. The SORP required all fixed assets under construction (including investment property) to be measured at cost. SORP required investment property held under a lease to be depreciated where the unexpired term was 20 years or less. This requirement has been removed in the Code. The Code requires gains and losses on valuation to be taken to the surplus or deficit on provision of services, as opposed to the revaluation reserve under the SORP. The Code requires component accounting; where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount.	In the 2008/09 unaudited annual accounts the Authority held £95.639m of investment property. As such it is expected that the definition of investment property and the classification of leases under the Code will have an impact on the treatment of the these. A listing of all investment properties should be examined, and the purpose they are held by the Authority should be investigated. All investment properties should be valued at fair value (market value), with the exception of investment property held under a lease which should be valued at fair value (lease interest). Gains and losses are taken to the surplus or deficit on provision of services (as opposed to the revaluation reserve under the SORP). The Authority will need to be able to derecognise a component of an asset when removed and recognise a new component. As a result the Authority will need to construct and apply suitable apportionment bases. The Authority should consider the potential changes to systems and processes such as: ▪ Asset Management System; changes to accounting for gains and losses, and derecognise an old component and recognise new component in relation to subsequent replacement and enhancement expenditure.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		The Authority should note that CIPFA has notified the Scottish Government that current regulations would not allow the mitigation of gains or losses for investment property on the 'bottom line' for council tax purposes. The Authority should keep a close watch on this matter.		
IAS 41 - Agriculture	Appendix A	None - the SORP did not include any specific accounting requirements in respect of agriculture.	The Authority does not undertake agricultural activity and therefore the standard does not apply.	
IFRS 1 – First time adoption of International Financial Reporting Standards	Chapter 10	The transition issues relate only to the Code, and therefore there were no equivalent provisions in the SORP 2009.	This is the subject of the restatement exercise for the 1 April 2009 balances and 2009/10 transactions. The Authority will be required to apply accounting policies based on the Code to be published in December 2009. Accounting policies should be applied to all periods reported (including retrospective application to opening balance sheet at 1 April 2009 and 2009/10 comparatives, unless the Code permits a prospective approach. 2009/10 comparatives should be restated as if accounting policies always existed where practicable and material. The Authority should note the following exemptions adopted by the Code in respect of retrospective application of some requirements of other IFRSs. These exemptions are: ▪ Authorities are required to account for the acquisition of subsidiaries and associates by applying the acquisition method and IFRS 3 Business Combinations prospectively from 1 April 2009. ▪ Authorities are required to apply the requirements of IFRS 2 Share-based Payment prospectively from 1 April 2009. ▪ The depreciated historical cost of an asset as at 1 April 2009 is deemed to be the depreciated historical cost of that asset as at 31 March 2009 under the 2009 SORP.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			▪ In adopting IFRIC 4 Determining Whether an Arrangement Contains a Lease, an authority is required to determine whether an arrangement existing as at 1 April 2009 contains a lease on the basis of facts and circumstances existing at that date. Where an authority determines that the arrangement contains a lease, it shall account for that lease retrospectively from the commencement of the lease. ▪ An authority is not required to adopt any of the transitional arrangements contained within IFRS 1 in respect of financial instruments, as these arrangements will have been adopted by the authority when the SORP adopted the equivalent UK standards. ▪ Where an authority is required to apply the requirements of IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities, it is required to apply the requirements prospectively from 1 April 2009. ▪ Where the requirements of the Code in relation to borrowing costs* amount to a change in accounting policy for an authority, the authority shall apply those requirements prospectively from 1 April 2009. ▪ Reconciliation of the differences in the balance sheet reported under the SORP and the balance sheet under the Code, as at 1 April 2009 and 31 March 2010, are not required to be presented. Instead, an authority is required to disclose any material differences. ▪ Reconciliation of the differences in the income and expenditure accounts/ STRGL reported under the SORP and the total comprehensive income and expenditure under the Code, for 2009/10 is not required to be presented. Instead, an authority is required to disclose any material differences. ▪ An authority shall not implement the requirements of the Code in relation to accounting for the depreciation of significant components of an asset and the derecognition of old components and recognition of new components	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			retrospectively. These requirements shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010. * CIPFA/LASAAC has been unable to finalise its proposals in the Draft Code with regard to Borrowing Costs as there is an ongoing debate at either national or international level. The consultation included two accounting options (refer to IAS 23 in this table for these options). It will be important for the Authority to consider the exemptions above throughout the transition exercise. The Authority will need to recognise all assets and liabilities at 1 April 2009 and 31 March 2010 that may not have existed under the SORP and restate existing assets, liabilities and reserves where applicable. Any adjustments arising from this restatement should be under taken on the face of the balance sheet in respect of restating 1 April 2009 balances and the balance sheet/comprehensive income and expenditure statement in respect of restating 2009/10 transactions. The disclosure requirements of the Code will need to be considered and implemented, for example the disclosure of material differences between the SORP and the Code. The Authority should keep a close watch on any statutory accounting requirements introduced to mitigate the impact of the transition to the Code (for example leases, holiday accruals and investment property). The Authority should consider the potential changes to systems and processes such as: ▪ Keeping detailed working papers of the restated balances and transactions (for example, within the financial ledger and asset management system) and can provide a robust	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			audit trail from the SORP balances to the restated Code balances for the following reasons: ➢ The Code requires an authority to publish in their 2010/11 statement of accounts, an opening balance sheet as at 1 April 2009. ➢ The Code requires an authority to disclose in their 2010/11 statement of accounts, any material differences in the balance sheet reported under the SORP and its balance sheet under the Code, as at 1 April 2009 and 31 March 2010 and material differences between the income and expenditure accounts/ STRGL reported under the SORP and the total comprehensive income and expenditure under the Code, for 2009/10 ➢ To provide evidence to external audit of how balances have been restated.	
IFRS 2 – Share based payment Other references: IFRIC 8 - Scope of IFRS 2 IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions	Appendix A	No significant differences.	The Authority does not transfer shares or other equity instruments in a subsidiary or associate in return for goods or services received.	
IFRS 3 – Business combinations	Chapter 2 Section 5 & Chapter 9	There are differences to the SORP in the timing of when fair value of assets, liabilities and goodwill are measured and recognised (ie where the acquisition takes place in stages). Differences also exist with regard to accounting for goodwill; under IFRS 3 goodwill is not amortised but	IFRS 3 would become applicable if the Authority was to combine with another entity. Any such activities should be accounted for in line with the Code going forwards.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		subject to impairment testing as required by IAS 36 Impairment of Assets, Under the SORP, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years, but it permits an indefinite useful life and includes annual impairment reviews. In addition there are differences in the accounting treatment of 'excess of acquirer's interest in the net fair value of acquiree's' (referred to as 'negative goodwill' in the SORP).		
IFRS 4 – Insurance contracts	Appendix A	No significant differences.	Not applicable – only applies to issuers of insurance contracts.	
IFRS 5 – Non-current assets held for sale and discontinued operations .	Chapter 4 Section 9	Surplus assets held for disposal will need to be reclassified as Assets Held for Sale. Under the Code for an asset to be classified as held for sale strict criteria must be met, i.e. an asset must be available for immediate sale in its present condition & the sale must be highly probable within the next 12 months. Valuation is the lower of fair value less costs to sell and the asset's carrying amount*. The valuation is carried out at the point of reclassification and at the end of each reporting date (i.e. 31 March). On the initial reclassification of an asset to held for sale or subsequently, an authority shall recognise an impairment or revaluation loss in the Comprehensive Income and Expenditure statement on the write-down to fair value less costs to sell (even where there is a balance on the revaluation reserve for the asset).	*Non-Current Assets Held for Sale* The Authority had £1.396m of surplus assets held for disposal disclosed in its 2008/09 unaudited annual accounts. The valuation is based on open market value. The 2008/09 unaudited annual accounts also disclosed that 18% (£314k) of the carrying amount was disposed during 2008/09 (that were classified as surplus assets), which indicates that the strict criteria under the Code may not be met. The Authority should review the portfolio of surplus assets and assess in terms of: ▪ Meeting the strict criteria under the Code. ▪ Depreciation. ▪ Valuation of the assets where the carrying amount is lower than fair value less costs to sell. ▪ Impairment or revaluation losses charged to the Revaluation Reserve on the initial reclassification of the asset to held for sale or subsequently on a write-down to fair value less costs to sell.	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		* Where the fair value less costs to sell is higher then the carrying amount, the gain can be reflected but only to the extent that it reverses previous impairment losses or revaluation losses charged to the Comprehensive Income and Expenditure statement (adjusted for depreciation). Assets classified as held for sale are not subject to depreciation. Where the criteria are no longer met, an asset is reclassified and valued at the lower of its; recoverable amount at the date of the decision not to sell, and carrying amount before the asset was classified, adjusted for depreciation or revaluations that would have occurred if the asset had not been reclassified as 'held for sale'. Where the carrying amount before the asset was classified as held for sale was based on a re-valued amount (i.e. there is a balance on the Revaluation Reserve), the adjustments are treated as a revaluation increase or decrease and posted to the Revaluation Reserve. Where the carrying amount before the asset was classified as held for sale was based cost (ie there is no balance on the Revaluation Reserve), the adjustments are posted to the Comprehensive Income and Expenditure statement.	▪ Revaluation gains are in excess of previous impairments and revaluation losses charged to the Comprehensive Income and Expenditure statement (adjusted for depreciation). ▪ Where sale is expected beyond one year, consider discounting the sale costs (unless immaterial). ▪ Splitting the assets that can be classified as held for sale under the Code, between 'long term' assets held for sale and 'current assets' held for sale, in terms of presentation on the face of the balance sheet. ▪ Changes to the Plan to sell, and account correctly for the restated amount. Where the criteria have not been met, the Authority should consider whether assets would fall to be classed as investment properties. Consult with the valuer with regard to the valuation basis of those assets for which classification will change under IFRS. *Discontinued Operations* The Code also covers 'discontinued operations,' being an activity that has ceased completely. Note that machinery of government changes are not classed as discontinued operations, and thus 'discontinued operations' are expected to be rare for local government. The Authority should however perform a review of its operations against IFRS 5 and determine whether any should be disclosed as discontinued in line with the standard. The Authority should consider the potential changes to systems and processes such as: ▪ Asset Management System; changes to accounting for assets held for sale, i.e. basis of valuation and	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			depreciation.	
IFRS 6 - Exploration for and evaluation of mineral resources	Appendix A	None - the SORP did not include any specific accounting requirements in respect of exploration for and evaluation of mineral resources.	The Authority does not undertake exploration for and evaluation of mineral resources and therefore the standard does not apply.	
IFRS 7 - Financial instruments: Disclosures	Chapter 9	No significant differences.	The Authority will have implemented the financial instruments standards in the 2007/08 annual accounts under the SORP. The applicable standards are largely IFRS-compliant therefore no impact will be expected on transition to IFRS.	
IFRS 8 - Operating segments	Chapter 3 Section 4	The Code requires disclosure of information on operating segments as a note to the financial statements. For the Code these will be based on internal management reporting. Reportable segments are based on an authority's internal management reporting for example; departments, directorates, portfolios and strategic objectives. Segments may include support services if this is reported internally. If more than one presentation is used for internally management reporting, the authority should select the presentation most commonly used by the individual or group within the authority for example the board or senior directors. The reporting of assets and liabilities on a segmental basis is required by IFRS 8, but the IFRS Code only requires the reporting of assets and liabilities where these are reported internally. The IFRS Code requires a reconciliation to the net cost of services and an analysis of surplus or deficit on the provision of services where there are differences arising from the subjective analysis	The Authority currently reports service level information to the Policy & Resources Committee. Reporting at service level would imply that the authority is able to report financial information for individual segments. The Authority must consider who the 'Chief Operating Decision Maker' (CODM) is in determining its operating segments. The CODM is a function and does not necessarily need to be an individual. Determine appropriate operating segments in accordance with criteria defined under Code (it is thought that these can be taken from the year end out turn report and therefore should not be too onerous). Develop segmental presentation based on example formats. The Authority should consider the potential changes to systems and processes such as: ▪ General Ledger Coding Structure and ledger reports; to enable the segmental analysis to be produced (changes dependent on agreed segments and subjective analysis).	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
		used for internal reporting. A segment shall be reported where its expenditure is 10% or more of the gross expenditure within the net cost of services; or its income is 10% or more of the gross income within the net cost of services. An authority may report segments that do not meet these criteria, either individually or combined with other segments. Where reportable segments using the 10% criteria do not include 75% of the expenditure within the net cost of services, additional segments or combination of segments are treated as reportable segments until the reportable segments include at least 75% of the expenditure within the net cost of services.		
IFRIC 12 Service concession arrangements .	Chapter 4 Section 3	IFRIC 12 differs markedly from the current risk and rewards-based approach of assessing balance sheet treatment of PPP/ PFI which is based on the control of the asset. Given the contractual arrangements for many PFI schemes, this would result in many schemes coming on balance sheet from the perspective of the purchaser. The same requirements defined under IAS 16 shall apply to PPP/ PFI assets brought onto the Authority's balance sheet (see under Tangible Fixed Assets, above). Note that the provisions for PPP/PFI are applicable for the 2009 SORP.	The Authority has entered into a Public Private Partnership with Class 98 Ltd to provide five schools. Payments became due under the contract from August 2000 and terminate in July 2026. The basic annual cost of these schools is £11.149m. No residual value is being built up in the balance sheet for the facilities therefore it is assumed that all the annual payments are being charged to Income and Expenditure account. As part of the Schools NPDO the Authority has a variant PFI scheme with Falkirk Schools Gateway Ltd to provide four new high schools. Payments became due under the contract from January 2009 and terminate in March 2040. The basic annual cost of these schools is £8.992m. Both schemes are 'off-balance sheet' and PFI credits being received in respect of both schemes. If the two scheme moves on balance sheet, then they must be accounted for in line with IFRIC 12 (as interpreted for the public sector). The accounting entries required may be complex and	

IFRS (as adapted by the Code)	Draft Code Reference	Key Changes between 2009 SORP & Draft Code	Action required/comment	
			require professional assistance. It should be noted that IFRIC 12 can apply to transactions which are not labelled as 'PFI' or 'PPP'. It should be noted that IFRIC 12 was adapted as part of the 2009 SORP and is therefore applicable from 2009/10.	