

FALKIRK COUNCIL

**Subject: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) –
PROGRESS REPORT**
Meeting: AUDIT COMMITTEE
Date: 15 November 2010
Author: DIRECTOR OF FINANCE

1. INTRODUCTION

- 1.1 This report updates Members on the progress made so far in the implementation of IFRS and identifies the further work required to ensure full implementation by the deadline for submission of the 2010/11 Accounts of 30 June 2011.

2. PROGRESS TO DATE

2.1 Restated Balance Sheet to 31 March 2009

As noted in my previous report to this Committee, the deadline for submission of the restated Balance Sheet to 31 March 2009 on an IFRS basis was 28 February 2010. This deadline was met and indeed Falkirk Council was one of the first in Scotland to submit its figures. Members should note that the main changes to the Net Assets were as follows:-

	£'000
• Inclusion of PFI/PPP schools within Fixed Assets	183,635
• Inclusion of Finance Lease Liability for PFI/PPP Schools	(110,130)
• Restatement of Government/Non-Government Capital Grants	27,184
• Restatement of HRA Windows Leases as Finance Leases	(7,145)
• Reclassification of Investment Properties to Property Plant & Equipment	(6,035)
• Accrual of Annual Leave in Short Term Creditors	(9,589)

- 2.2 The restated Balance Sheet has been examined by CIPFA/PwC who are happy with the figures. In addition, External Audit are also examining the figures and most of their queries have been answered.

- 2.3 These figures are not yet finalised as guidance is still awaited from CIPFA/PwC on the treatment of finance lease income.

2.4 Restated Annual Accounts to 31 March 2010

The deadline for submission of the restated Accounts to 31 March 2010 was extended to 15 October 2010. This deadline was met and again I expect Falkirk Council to be one of the first to submit its figures.

As noted in my previous report to this Committee the following statements were required to be restated.

- Comprehensive Income and Expenditure Account (CIES)
- Balance Sheet
- Movement in Reserves Statement (MIRS)
- Cash Flow Statement

Members should note the main changes to the figures were as follows:-

<u>CIES</u>	£'000
(The Service figures in the CIES are now shown as per the Standard Expenditure Analysis, not by Service)	
• Income from Capital Grants Applied now shown in CIES	(17,583)
• Exclusion of Capital portion of Window Lease expenditure	(1,700)
• Depreciation of Assets previously classed as Investment Properties	2,592
• Increase in Annual Leave Accrual	544

BALANCE SHEET

• Capital Grants Applied deducted from Long Term Liabilities	17,583
• Capital portion of Window Lease expenditure deducted from Long Term Liabilities	1,700
• Depreciation of Assets previously classified as Investment Properties	(2,592)
• Increase in Annual Leave Accrual added to Short Term Creditors	(544)

There are no changes to the figures in the Cash Flow Statement (although the presentation is different) and the Movement in Reserves Statement is a new Statement which was previously disclosed by way of a Note to the Accounts.

Again it should be noted these figures may well be subject to change following examination by CIFPA/PwC and External Audit.

- 2.5 A new Note to the Accounts is also required reconciling the final figures as reported to the Policy and Resources Committee, to the figures in the CIES. This reconciliation is done at Service level.
- 2.6 Copies of all restated Accounts are available to Members on request.

3. STATUTORY INTERVENTION BY THE SCOTTISH GOVERNMENT

- 3.1 As noted above several of the entries under IFRS require changes to the CIES. If nothing else changed then some of these entries would have an effect on the Council's General Fund Balance e.g. the Annual Leave Accrual of £9.6m in 2008/09 would have left a negative General Fund Balance. With that in mind the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) sought permission from the Scottish Government to nullify the effect on the General Fund in the form of Statutory Intervention. To date the Scottish Government have approved such arrangements for 2 scenarios which negate the impact on the General Fund Balance

- Accounting for Short Term Accumulated Compensatory Absence (which includes the Annual Leave Accrual) This involved the creation of a new Reserve, the Short Term Accumulated Compensatory Absence (STACA) Reserve which is shown under Unusable Reserves.
- Accounting for PFI and Similar Arrangements.

LASAAC are currently consulting with Local Authorities on any other areas where further intervention should be sought.

4. FURTHER WORK REQUIRED

- 4.1 As mentioned above CIPFA/PwC and External Audit have still to carry out a full review of the restated 2010 Accounts. CIPFA/PwC have however recently carried out a high level review and at the time of writing have still to arrange a date to carry out a more detailed assessment. When this is (substantially) complete the Accounts will be passed to External Audit for review.
- 4.2 Once the reviews are complete, the restated opening balances as at 1 April 2010 will require to be updated to the ledger.
- 4.3 A workplan detailing areas of responsibility for preparation of the Accounts to 31 March 2011 including the Notes to the Accounts has been issued. This has been done much earlier in the cycle to enable staff to familiarise themselves with any required changes to presentation or disclosure under IFRS.

5. RECOMMENDATION

- 5.1 **Members note progress to date on the project.**

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Director of Finance

Date: 27 October 2010

Contact Officer: John Flannigan

LIST OF BACKGROUND PAPERS

1. Information Bulletin dated 29 April 2009.
2. Audit Committee Paper 5a dated 16 November 2009.
3. Audit Committee Paper 5b dated 16 November 2009.

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506371 and ask for John Flannigan.