



Approved by LASAAC on 27/02/19

Minutes

Committee	Local Authority (Scotland) Accounts Advisory Committee	
Date	23 October 2018	
Time	14:00 pm	
Venue	CIPFA, 160 Dundee Street, Edinburgh	
Members	Hugh Dunn	City of Edinburgh Council (Vice Chair)
In Attendance	Paul O'Brien Hazel Black Fiona Kordiak Stephen Reid* Lesley Bairden* Joseph McLachlan* Tina Duncan Nick Bennett	Audit Scotland Scottish Government Audit Scotland EY East Renfrewshire Integration Joint Board East Ayrshire Council Glasgow City Council Scott-Moncrieff
	*joined via conference call	
Apologies	Ian Lorimer Gillian Woolman Kirsty Flanagan Elise Black Gary Devlin	Angus Council Audit Scotland (Chair) Argyll and Bute Council Scottish Government Scott-Moncrieff
Secretary	Gareth Davies	CIPFA

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is funded by the Chartered Institute of Public Finance & Accountancy (CIPFA), Audit Scotland and the Scottish Government.

The members of LASAAC are volunteers representing the funding bodies or participating as appointed or co-opted members. LASAAC is primarily concerned with the development and promotion of proper accounting practices for Scottish local authorities. A key task in achieving this is LASAAC's contribution to the development of the 'Code of Practice on Local Authority Accounting in the United Kingdom' ('the Code').

LASAAC meetings are to be conducted in accordance with LASAAC's Terms of Reference as approved by LASAAC and ratified by the funding bodies.

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	Item	Action
1	Item 1. Apologies	
1.1	Ian Lorimer, Gillian Woolman, Kirsty Flanagan, Elise Black, Gary Devlin	
2	Item 2. Minutes and Actions	
2.1	The minutes were approved for upload to the website.	1
2.2	The actions were reviewed. A practitioner representative is being sought through the Directors of Finance Section. A paper on the financial reporting aspects of financial resilience / sustainability will be developed.	0.1,0.2
3	Item 3. Membership and Attendance	
3.1	The papers were noted.	
4	Item 4. Work Plan 2018/19	
4.1	The workplan was approved.	
5	Item 5. CIPFA/LASAAC Code Board	
5.1	<p>The discussions, feedback and proposed actions arising from the CIPFA-LASAAC strategy day were discussed. Areas noted included:</p> <ul style="list-style-type: none"> • The importance of the management commentary • The use of materiality judgements • Identification of good practice examples • FRC paper on Business model reporting • Potential for increased emphasis on commentary or narrative with a reduction in disclosures. <p>Review and report of application of FRC guidance to local authority management commentaries to be undertaken by Hazel, with a view to 19/20 implementation.</p> <p>Annual accounts good practice examples to be identified by Paul and Fiona.</p>	2,3
6	Item 6. Integration Guidance	
6.1	<p>A verbal report of working group progress was noted. Guidance is to be drafted for public consultation regarding:</p> <ul style="list-style-type: none"> • Over & underspends treatment • Hosted services (Noting IFRS 15 criteria applies re agency assessment) • Service income in IJB accounts (question only, no guidance proposed) • Set Aside (transparency expected to be a focus) • Earmarked Balances & Contingency Reserves • Segments • Pay band disclosures (propose exclusion where Remuneration Report 	4

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	<p>provides details anyway)</p> <ul style="list-style-type: none"> • Critical Judgements • Co-operation in agreeing balances & transactions • Resource Transfer (question only, no guidance proposed, existing approaches proposed to remain) • Negative reserves (disclosures expected if negative reserves exist eg clear management commentary) • Open question (any other areas to address) <p>The presentation of negative reserves in IJB accounts, and the resultant implications for budget setting, was raised. 2018/19 LASAAC guidance will consider this area with an emphasis on explanation and transparency regarding the position and planned actions anticipated.</p> <p>Draft guidance is to be discussed by the working group at the end of November. A consultation document is to be submitted for LASAAC approval prior to issue in mid-December. Responses will be requested for end of January.</p>	
6.2	The implications of the recent Scottish Government announcement of brokerage negotiation for IJBs is not yet clear.	
7	Item 8 IFRS 9 Financial Instruments	
7.1	<p>IFRS 9 amendments were previously noted to have raised the following issues:</p> <ol style="list-style-type: none"> 1. Loan assets with 'negative compensation' features (clauses whereby the borrower can repay early without fully compensating the lender for the loss of future interest income / future cash flows). 2. Modification of loan liabilities eg changes to a liability's future cash flow payments. This is not a public sector specific issue <p>A recent CIPFA Local Authority Accounting Panel sub-group had discussed the latter. CIPFA-LASAAC is anticipated to discuss the matter in November.</p>	
8	Item 9. IFRS 16 Leases	
8.1	<p>Feedback from a CIPFA impact assessment, undertaken with a small number of representative authorities across the UK, was provided. This included discussion of external audit community comments arising from consideration of some of the findings.</p> <p>Points included:</p> <ul style="list-style-type: none"> • The resource capacity (staff time) which may be required to manually review contracts to identify lease terms relevant for IFRS 16 implementation • The importance of communication with, and the involvement of, other professions (eg procurement, legal, IT, estates, valuers) 	

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	<ul style="list-style-type: none"> • The reliance on existing IAS 17 / IFRIC 4 compliance, and the challenges arising if evidence is not readily available to support this • The practical challenges of estimating restoration obligations, and feedback that in many cases estimation may not be reliable until nearer the end of the lease term • Identification of the lease term where roll forwards of lease (eg annually) is common practice • Service concession arrangements lease liabilities • Development of lease register systems and processes • Classification of subleases – some subleases may switch from being 'revenue' income to being 'capital' in nature • Valuation of Right of Use (RoU) Assets <p>It was noted that while some technical accounting issues may exist, the primary interest for authorities is one of resource (eg staff time) both for implementation and ongoing.</p> <p>A meeting with the external audit community discussed several aspects regarding authority compliance including completeness and accuracy of existing records, governance and project management, accounting treatment paper preparation, measurement of RoU assets, a preference for controlled processes rather than ad hoc spreadsheets and staff leasing expertise availability.</p> <p>Evidencing compliance with existing requirements for the 2018/19 year end may be anticipated to be a key objective for authorities and auditors.</p>	
8.2	<p>Fiona and Joe provided an update on a FRAB out of meeting paper which had sought further feedback on practical issues for central government implementation. Reference was made to staff time being required for Brexit related matters, and uncertainties relating to IFRS 16 treatment within the central government budgeting framework.</p> <p>It was anticipated that HM Treasury would consider the responses and would provide FRAB, meeting on 22 November, with a recommendation as to implementation date.</p>	
9	Item 10 Insurance Accounting	
9.1	<p>The paper was discussed with key conclusions being:</p> <ul style="list-style-type: none"> • The existing guidance will be withdrawn • Replacement guidance should be principles based without detailed entries or examples, since each authority's internal management arrangements may differ • No internal transactions will appear in the Comprehensive Income and Expenditure Statement • No gain/loss on an Insurance Account for the year will be reported in the CIES • It is acceptable that the end effect presentation of insurance costs incurred in the year (eg payment of external insurance premiums) by the authority is to show these as being expenditure re-allocations. 	5

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	<ul style="list-style-type: none"> • This permits funds, such as the HRA, to be presented as having incurred insurance expenditure. • It is for each authority, in line with the requirements for the CIES, to determine whether insurance expenditure is included in each service line on the CIES or not. • Some authorities may determine, with reference to the requirements, that insurance expenditure is presented in one segment line in the CIES (eg corporate services) • All transfers to or from the Insurance Fund should be presented as movements in the MiRS. This reflects the principle that: <ul style="list-style-type: none"> ○ Direct costs (eg payment of external insurance premiums) are allocated or re-allocated appropriately as expenditure within CIES lines ○ Any contributions to/from the Insurance Fund is a specific decision for the council <p>Insurance Accounting guidance is to be drafted for LASAAC consideration by the end of November, with a public consultation to be issued in December.</p>	
10	Item 11 Valuation of Property	
10.1	<p>The paper was discussed. Differing practices in authorities were noted to exist. It was agreed that where an authority uses valuations dated at the start of year (opening) 1 April for the end of year (closing) 31 March balance sheet it would be anticipated to:</p> <ul style="list-style-type: none"> • Provide evidence of whether significant changes in valuation had occurred during the year • Adjust the closing 31 March balance sheet figures where significant changes were found to have arisen <p>Letters of engagement with valuers should be clear on the expectations and assurances required. LASAAC guidance was regarded as unnecessary.</p> <p>LASAAC members agreed to promote the expectations regarding valuation of property.</p> <p>Potentially the matter may be included in relevant year end briefings and raised at events.</p>	6
11	Item 12. Statutory Adjustments Presentation Proposals	
11.1	<p>Regarding the consolidation of pensions statutory adjustments, Hazel has been provided with the requested information and will seek LASAAC member views on the draft guidance.</p>	7
11.2	<p>The proposed Scottish Government and LASAAC approach to dealing with IFRS 9 fair value through profit or loss (FVPL) instruments was previously agreed. This allows the impact on the General Fund to remain but to require authorities to consider whether gains have been realised (are available to support services) when setting the council tax.</p>	8

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	<p>It was agreed that Scottish Government guidance concerning assessment of realised gains for consideration in council tax setting was appropriate.</p> <p>LASAAC guidance on the accounting and financial reporting aspects will be developed as previously agreed.</p>	
11.3	Regarding statutory adjustments presentation proposals, Hazel will seek feedback from LASAAC members during the drafting process.	9
11.4	The detail of Remuneration Report requirements may potentially be included in statutory guidance. The requirement for a Remuneration Report will still be specified in legislation.	
11.5	<p>It was understood that some LOBOs have been converted to standard loans which may have implications for any related balances in the Financial Instruments Adjustment Account (FIAA).</p> <p>Request for information on any LOBO conversions to standard loans, and the related balances in the FIAA, to be circulated to the Directors of Finance Section.</p>	10
12	Item 13. Audit Scotland Update	
12.1	Fiona reviewed the 17/18 accounts audit process. Some audit modifications arose regarding STO non-achievement of a break-even position. All IAS 19 pension asset valuations were updated where material concerns arose.	
12.2	<p>Planning areas include:</p> <ul style="list-style-type: none"> • Planning for EU withdrawal • Scottish Government medium term financial plan, and the changes this may mean for different bodies • Openness and transparency • Dependency on key suppliers and risk management • Care income and services 	
12.2	<p>Reports</p> <p>The Scottish Parliament Audit Committee has requested an analysis of National Fraud Initiative outcomes by organisation. Data will be confirmed with councils in advance of submission.</p> <p>Forthcoming reports:</p> <ul style="list-style-type: none"> • Local government financial overview (November). The performance overview is planned for March. • Health & social care integration (15 November) 	
13	Item 15. CIPFA Update	
13.1	The recent CIPFA statement on borrowing to invest in investment property was noted and discussed.	

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	Item	Action																				
14	Dates of next meetings																					
14.1	All at CIPFA, Edinburgh, 160 Dundee Street																					
	<table border="1"> <thead> <tr> <th>Day</th> <th>Date</th> <th>Time</th> <th>CIPFA-LASAAC</th> </tr> </thead> <tbody> <tr> <td>Wednesday</td> <td>27/2/19</td> <td>2pm</td> <td>5/3/19 Edinburgh</td> </tr> <tr> <td>Wednesday</td> <td>22/5/19</td> <td>2pm</td> <td>3/6/19 London</td> </tr> <tr> <td>Tuesday</td> <td>20/8/19</td> <td>2pm</td> <td></td> </tr> <tr> <td>Wednesday</td> <td>23/10/19</td> <td>2pm</td> <td>6/11/19 Edinburgh</td> </tr> </tbody> </table>	Day	Date	Time	CIPFA-LASAAC	Wednesday	27/2/19	2pm	5/3/19 Edinburgh	Wednesday	22/5/19	2pm	3/6/19 London	Tuesday	20/8/19	2pm		Wednesday	23/10/19	2pm	6/11/19 Edinburgh	
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