

## TASS Overview Training

December 2015



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## Introductions

- Alan Bermingham:  
Policy & Technical  
Manager
- Nicola McAlinden:  
Principal Consultant
- Fiona McCloskey:  
Senior Training  
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CIPFA Belfast



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## Agenda

1. Review of 2015/16 Code Technical Changes
2. Update on other General Regulatory and Technical areas
3. Feedback of Audit Issues from 2014/15 Close
4. Key Guidance Areas
5. Updated Pro-forma Accounts

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## Aims and Objectives

- Provide a technical update on the Code
  - Understand the relevant changes and prepare for 2015/16
- Discuss and review NIAO Audit issues raised
  - Identify appropriate solutions
- Review and understand CIPFA guidance in issue
  - Introduce changes to the pro-forma Models

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## IFRS 13 Fair Value Measurement



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## IFRS 13 Objectives

- Single approach to Fair Value Measurement
- Address inconsistencies in FV
- Increase transparency
- Clarify definition of Fair Value
- Increase convergence of IFRS and US GAAP

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### Definition of Fair Value

“The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

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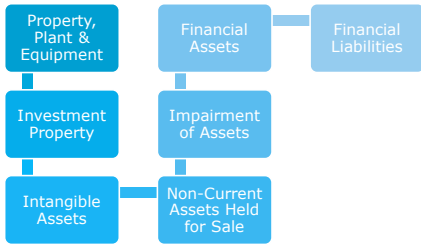
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### Example Areas to Consider



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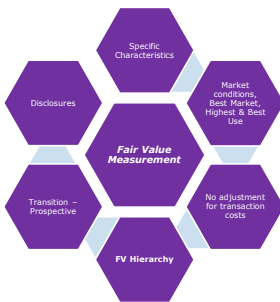
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### IFRS 13 Fair Value Measurement



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## IFRS 13 – Code impact

- Prospective application in 2015/16
- Operational PPE measured at service potential (current value) – no change in measurement requirements
- Surplus assets measured for their economic benefits at FV under IFRS 13 from 2015/16
- Investment properties – highest and best use
- Liabilities – best transfer price

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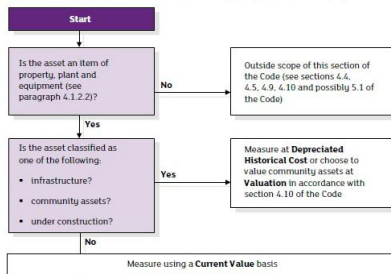
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Measurement Decision for an Item of Property, Plant and Equipment



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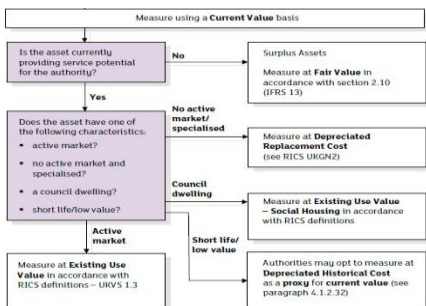
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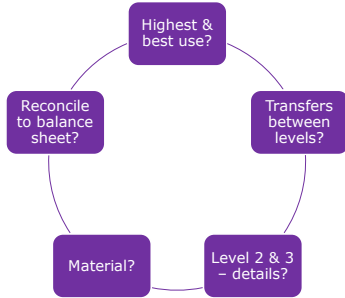
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### Disclosures – Some Considerations




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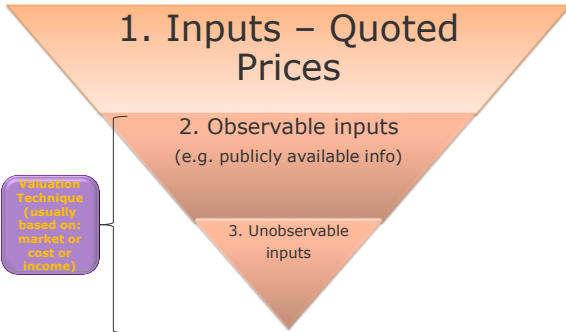
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### Possible Actions

|  |                                   |   |
|--|-----------------------------------|---|
| verify valuers and treasury advisors complying with IFRS 13 requirements | accounting policies               | asset register changes (e.g. to record and report on valuation level) |
| minimise use of level 2 & 3 valuations                                   | minimise transfers between levels | consider materiality of disclosures                                   |

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## IFRIC 21 – Levies and the Code

- **Code Para. 8.2.1.10** - IFRIC 21 'Levies' provides guidance on levies imposed by governments in the financial statements of entities paying the levy
- The IFRIC relates to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37
- Where an authority considers it has relevant transactions, it shall refer to IFRIC 21

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## Levies Timing and Measurement

| Type   | Obligating event                                       | Recognition of the Liability   |
|--|--|--|
| Levy triggered progressively as revenue is generated in specified period                                       | Generation of revenue in the specified period          | Recognise progressively  |
| Levy triggered in full as soon as revenue is generated in one period, based on revenues from a previous period | Generation of revenue in the subsequent period         | Full recognition at that point in time                                   |
| Levy triggered in full if entity operates as a bank at the end of the reporting period                         | Operating as a bank at the end of the reporting period | Full recognition at the end of the annual reporting period               |
| Levy triggered if revenues are above a minimum threshold   | Reaching the specified minimum threshold               | Recognise an amount consistent with the obligation at that point in time |

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## IFRIC 21 - Application

- Initial application is in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, i.e. the requirements are applied on a retrospective basis.
- Applied in the Code for 2015/16 in Local Authorities

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### IASB Developments



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### IPSASB Developments



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### Update on General Regulatory and Technical Areas

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## LAAP/Code and Other Recent Developments

- **Code:**
  - IFRS 13 / IFRIC 21 (Covered)
  - Clarification on 'Materiality' of disclosures
  - Confirmation on the Measurement of Heritage Assets (following FRS 102 Introduction)
    - *shall continue to be made by any method that is appropriate and relevant*

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## Code and Materiality Update

- local authority financial statements to disclose information which is material
- CIPFA/LASAAC is of the view that local authorities should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements
- This position is based on paragraph **3.4.2.26** from the Code's adoption of IAS 1 *Presentation of Financial Statements* which states that 'A local authority need not provide a specific disclosure required by the Code if the information is not material.'

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## The Accounts Closedown Process And Faster Closing



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## A definition of local authority accounts closedown

- The process of listing, identifying and verifying the balances in the ledgers and bank accounts of a local authority, completion of the trial balance, leading to production of the CIES, balance sheet and cash flow statements
- It ensures that all relevant ledger balances contain financial information that is pertinent to the accounting period under review, before these balances are carried forward to the next accounting period

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## Why is it necessary?

- Statutory duty
- Examine overall financial performance
- Compare planned and actual spending
- Determine a financial position at a point in time
- Take stock of successes and failures
- Communication tool of financial results to stakeholders

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## Why do we need to do it well?

- Stakeholders need a more timely report on their authority's financial activities
- Local Government Finance Act (NI) 2011 requires monitoring of reserves and associated reporting requirements
- Local authority accounts feed into the WGA for the UK public sector – which informs the national position
- Poor completion and late reporting of its accounts means greater risks to authority's financial position and reputation

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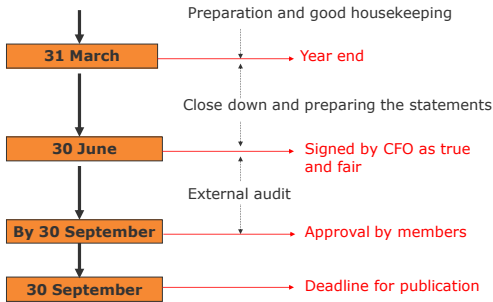
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### Preparing the accounts



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### Quick exercise...

What do you think are the key elements required to ensure that closedown is both timely and effective?

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### Accounts closedown – developing an effective schedule

- Define the tasks and activities using your scope statement
- Sequence the activities identifying any dependencies
- Group the tasks and activities into phases
- Create milestones
- Create time estimates for the tasks and activities
- Assign people to the tasks and activities
- Review your schedule for errors and correct
- Hold regular progress meetings with your team and adjust the schedule

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### Example closedown timetable

| Task No. | Task detail                                     | Duration | Responsible person | Start time | End time | Predecessors |
|----------|---|----------|--------------------|------------|----------|--------------|
| 1        | Issue timetable to departments                  | 1 day    | R Baxter           | 02/02/15   | 02/02/15 |              |
| 2        | Post all accruals and prepayments on the ledger | 1 day    | J Smith            | 02/03/15   | 06/04/15 |              |
|          |   |          |                    |            |          |              |
|          |   |          |                    |            |          |              |
|          |   |          |                    |            |          |              |
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### Accounts closedown – good housekeeping

- Give yourselves enough time to prepare for closedown – commence process in January
- Reconciliation of control and holding accounts (ongoing)
- Checking that suspense codes used are authorised by the CFO
- Correction of mis-codings which have occurred during the year
- Familiarise staff with closedown procedures well in advance

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### Accounts closedown – good practice

- Consider soft closing/hard closing periods
- Consider using estimates for closedown especially when charging out for support services (consider materiality)
- Exercise tight control over inputs into the general ledger over the period
- Review the outturn to budget position regularly to ensure that figures in the ledger are accurate and make sense
- Continual improvement to establish efficient practices
- Electronic working papers

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### Accounts closedown – ensure workings and documentation are clear and unambiguous

- Documentation must be understandable and of good quality
- Working papers must be clear, accurate and relevant
- Ensure working papers are logical and accessible to both the CFO and external Audit
- If you read them next closedown will they make sense?
- It is in your interests to do this – do not make life difficult for yourself

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### Accounts closedown – quality assurance



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### Accounts closedown – ensuring that you have the correct technical expertise

- Suitably qualified staff
- Training
- Mentoring
- Task rotation or buddying
- Dedicated resource

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### Faster closedown in E&W

- Timetable for accounts – from 2017/18
  - CFO sign off – 31 May (was 30 June)
  - Approved and published – 31 July (was 30 September)

How are you going to achieve this?

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### Faster closedown

How do we approach it?

What are the benefits?



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### Feedback of Audit Issues from 2014/15 Financial Close

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### 2014/15 Close – Audit Issues

**PROBLEM**

- Public Realm / Agency Accounting

**OBSERVATIONS**

- Concluding if you acting as Principal or Agent
- Similar Transactions being accounted for differently
- REFCUS v Agency Accounting

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### Principal and agent transactions

- Agent or principal?
  - Agent = Acting as Intermediary
  - Principal = Acting on your own behalf
- Where authority acts as agent – do not reflect transactions
- No statutory accounting arrangements
- No specific disclosure
- No statutory disclosures

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### Other Capital issues

- MRP Issues**
  - Councils not included un-funded PFR expenditure
- Fixed Assets in use held at Nil Value**
  - Re-life operational assets in new Council
- Revaluation Reserves not always split by Asset**
  - Will create problems in accounting, disposals, impairments etc.
- Heritage Assets not always at current value**
  - Can use appropriate methodology – see previous slides
- Assets are not 'tagged' therefore FAR may not be complete**
  - This is an operating control procedure

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## 2014/15 Audit Issues - Liabilities

- **Accumulated Absences** - on an inconsistent basis
  - **Based on:**
    - 260 days
    - 365 Days
    - % of Payroll
  - What the standard method of payroll calculation/policy
  - Calculation should be consistent with that
  - Councils may be different

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## OTHER 2014/15 Audit Issues

- **Procurement:**
  - Not following best practice
  - Not maintaining a central register/database of contracts
- **Governance:**
  - Declarations of Interest not completed
  - Risk Register Reviews

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## Key Guidance Areas

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**Revisions for new and transferred powers**

New Services

- **Planning and Development Services**
  - Economic Development
  - EU Rural Development
  - Urban Regeneration and Community Development
  - Planning policy
  - Development Control
- **Highways and Transport services**

Update to existing Services

- Leisure and Recreation Services
- Environmental Services

New powers

- AOCC costs
- Community Planning

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**Changes to existing classifications**

- Other Functions
- Movement of existing sub-divisions
- Corporate and Democratic Core and Other services

**SeRCOP 2016 – 17: No changes to Service Expenditure Analysis**

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**Revaluations**

- Adjusted Wording – accepting current practice
- *‘Within Northern Ireland Local Government, the practice on revaluation in recent years has been to formally revalue once every five years with an assessment of material changes using indices in-between formal valuation dates. Indices are prepared by LPS and circulated by the Department’*
- Methods of calculating the revaluations are being checked prior to issue of final guidance

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## Accounting for Capitalisation Directions and REFCUS Guidance (Revised)

- Clarity around the accounting treatment when Council issues loan/grant
- The Prudential Code states that **Capital Expenditure** includes.....

*'.....the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third person, towards expenditure which would, if incurred by the Council be Capital Expenditure...'*

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## Accounting for Capitalisation Directions and REFCUS Guidance

### Accounting treatment:

- Grant charged to services:  
Dr Cost of Services  
Cr Bank/Cash/Accounts Payable
- Expenditure as capital for funding purposes (MIRS)  
Dr Capital Adjustment Account  
Cr General Fund

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## Opening Balance Sheet Guidance

- Accounting treatment for transfers of functions from Local Government Reform
- New Council Opening Balance Sheet Note
- Impact of Local Government reform on the Capital Adjustment Account
- Documentation to support the Opening Balance Sheet Note

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## 2015-16 Pro-Forma Accounts

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### Opening Balance Sheet Pro-forma

- Populates Opening Balance Sheet note
- Splits the Balance Sheet down into four levels
- Information will be used to populate **'Input Tab – BS'**

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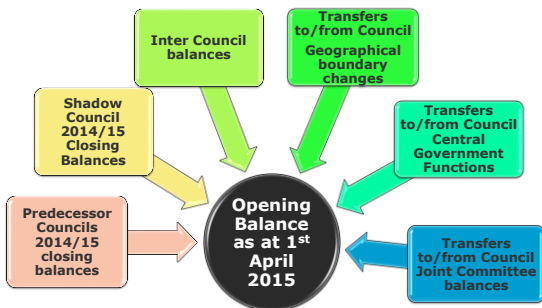
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### Opening Balance Note – Input Tab



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## 11 Council Pro-forma Model

- New Model – similar to STC & Shadow Council
  
- Input Tabs
  - Standing data
  - Trial Balance information
  - Non Trial Balance information
  - Text
  
- Cash flow model
  
- Remuneration Report
  
- Annex: Rates Support Grant

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## 11 Council Pro-forma Model

### Input Tabs – CIES & Balance Sheet

- Information derived from Trial Balance
  
- Each line of the accounts set out in 4 levels
  - Level One
  - Level Two
  - Level Three
  - Level Four

### Opening Balance Sheet

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## 11 Council Pro-forma Model

### Input Tab – Non TB

- Information not derived from Trial Balance
  - Accounting Policies
  - Audit fees
  - Staff notes
  - Exit packages
  - Current/ Non Current split:
  - Commitments & Contingent Liabilities
    - Provisions
    - Borrowings
    - Leases
  - Commitments & Contingent Liabilities
  
- Allow Councils to include additional disclosures

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## 11 Council Pro-forma Model

### Input Tab – Text

- Explanatory Forward
- Certificate of the CFO and New Councils approval of the Statement of Accounts
- Statement of the New Council’s and CFO Responsibilities for the Statement of Accounts
- Remuneration Report
- Governance Statement
- Reform disclosures

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## 11 Council Pro-forma Model

### General points

- No manual intervention
- Password protected
- Formatting of the model
  - Note numbers
  - Print format
- Volunteers – test the model?
- Close down training – additional training

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## Joint Committees

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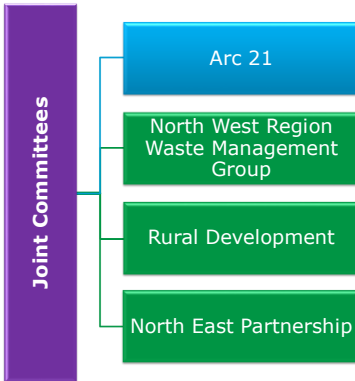
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### Joint Committee Pro Forma

- No significant changes made
  
- Two pro-forma models
  1. Smaller Joint Committee – one input sheet model
  
  2. Larger Joint Committee - based on legacy 26 council model

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Any Questions?



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