

course
materials



TASS Training – April 2016

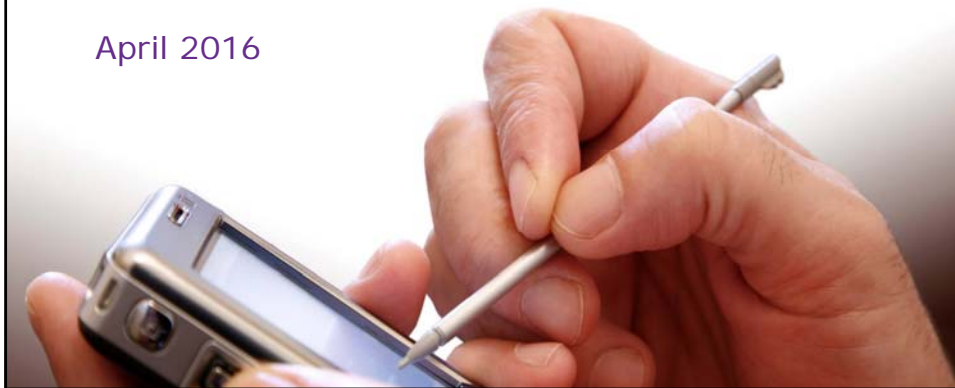
TASS Training – April 2016

09.30	Registration and Coffee
10.00	Introduction and Objectives
10.05	Technical Update <ul style="list-style-type: none"> ▪ Recap on IFRS 13 Fair Value Measurement ▪ Future Accounting standards <ul style="list-style-type: none"> ○ IFRS 15 Revenue from contracts with customers ○ IFRS 9 Financial Instruments ○ IFRS 16 Leases
10.45	Update on Other General Regulatory and Technical Areas <ul style="list-style-type: none"> ▪ Recent LAAP Bulletins
11:00	Tea/Coffee
11:15	Audit Considerations
11:45	Accounts Directions <ul style="list-style-type: none"> ▪ District Councils ▪ Larger Local Government Bodies ▪ Smaller Local Government Bodies
12:00	Pro – forma Accounts <ul style="list-style-type: none"> ▪ District Councils including Rates Support Grant Pro-forma ▪ Larger Local Government Bodies Pro-forma ▪ Smaller Local Government Bodies Pro-forma
12:30	Telling the story
12.50	CIPFA Guidance <ul style="list-style-type: none"> ▪ Revaluation of Assets ▪ Discount rates for Long Term Provisions ▪ Opening balances: accounting for combinations of public sector bodies
13.10	Questions and Close
13.30	Lunch

We reserve the right to alter the timing or content of sessions where circumstances require.

TASS Overview Training

April 2016



Introductions

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

CIPFA Belfast



Agenda

1. Review of 2015/16 Code Technical Changes
2. Update on other General Regulatory and Technical areas
3. Audit Considerations for 2015/16
4. Accounts Directions
5. Updated Pro-forma Accounts
6. Telling the story
7. Key Guidance Areas

IFRS 13 Fair Value Measurement



Use of "fair value" in the Code

- Prior to 2015/16 – no consistent definition in IFRS
- Previously, in general:
 - “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.”
- IFRS 13 Fair Value Measurement – 2015/16 Code
- Introduction of current value

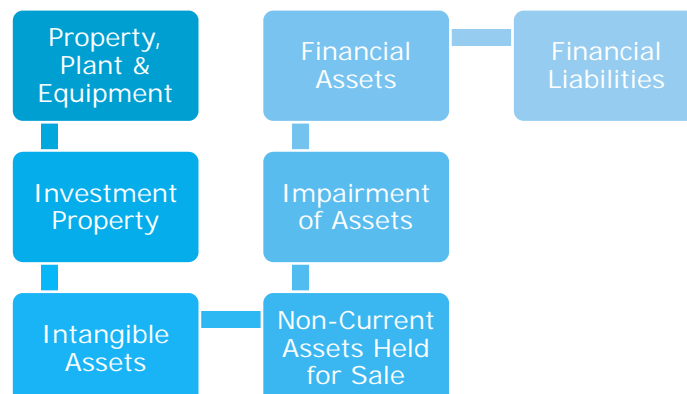
IFRS 13 – Fair Value Measurement

- Fair value (FV) – 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.
- Non-financial assets measured at ‘highest and best use’.
- The **entity’s intention to hold an asset** or to settle or otherwise fulfil a liability **is not relevant** when measuring FV.
- Potentially onerous disclosures.

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

Example Areas to Consider



IFRS 13 Fair Value Measurement



Restrictions – example

- A Council has received a piece of donated land (previously used as a sports field) – value based on its restrictive use – £55k
- Restrictions exist that the land must be used to promote sporting excellence
- Land requires significant investment, therefore authority has decided to sell the land
- Third party not bound by same restrictions
- Development potential value – £500k
- **What is the fair value?**

Highest and best use valuation premise

- Highest and best use determined only from market participants' perspective
- Therefore does not take into account councils intentions
- Example...



Highest and best use – example

- A Council has some surplus land valued based on its use before becoming surplus – £25k
- Planning consent exists to build a library which could increase value to £75k
- However the valuer's view is that the highest and best use is for residential development at £300k
- **What is the fair value?**

IFRS 13 – the fair value hierarchy



IFRS 13 - Disclosures

For assets and liabilities information that helps users of the financial statements assess

- The valuation techniques and inputs used to develop those measurements
- For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

Substantial disclosures to back up these disclosure objectives

- Disclosures are not just on those assets and liabilities measured in the balance sheet
- Recurring and non recurring measurements

CIPFA/LASAAC has included a clear steer on materiality

- What level of detail?
- How much emphasis?
- Level of aggregation or disaggregation?
- Whether users need additional information.

What you need to consider...

- surplus assets
 - review classification
 - identification & restrictions
- investment property
 - classification

Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:
a) use in the production or supply of goods or services or for administrative purposes, or
b) sale in the ordinary course of operations.

- assets held for sale
 - measured at lower of carrying amount and FV less costs to sell

What you need to consider...

- discuss IFRS 13 with valuer – highest and best use
- review valuation processes for all assets & liabilities to be measured at FV
 - critical judgements
- discuss IFRS 13 with treasury advisors
- update disclosures and accounting policies
 - don't forget to replace reference to fair value with current value for operational assets

Summary of what to consider when measuring fair value

Determine the asset or liability to be measured

For non-financial assets determine the valuation premise – “highest and best use”

Determine the market in which an orderly transaction would take place for the asset or liability

Determine the appropriate valuation techniques to be in used measuring the asset or liability

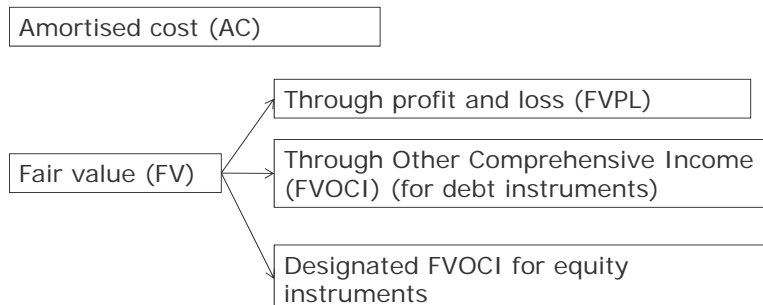
FUTURE ACCOUNTING STANDARD CHANGES WITH IMPACT ON THE CODE

IFRS 9 – Financial Instruments

- Replaces IAS 39
- Effective date 1 January 2018 = 2018/19 Code?
- Three main areas:
 - Single classification model financial assets
 - Expected loss model
 - Hedge accounting
- Limited changes to financial liabilities

Financial asset classification changes

- Available for Sale category gone
 - Reclassify
 - Review remaining financial assets



IFRS 15 Revenue Recognition from Contracts with Customers

- Replaces:
 - IAS 11 *Construction Contracts*
 - IAS 18 *Revenue*
 - IFRIC 13 *Customer Loyalty Programmes*
 - IFRIC 15 *Agreements for the Construction of Real Estate*
 - IFRIC 18 *Transfers of Assets from Customers*; and
 - SIC 31 *Revenue – Barter Transactions Involving Advertising Services*

- Effective date 1 January 2018 = 2018/19 Code?

- Disclosures

- Transition – full or cumulative approach?

Five step process

Step 1 – Identify contracts with customers

- **Contract:** agreement between two or more parties that creates enforceable rights and obligations
- **Customer:** a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration

- Excludes leases, financial instruments and insurance contracts, council tax and NDR

Step 2 – Identify performance obligations in the contract

- Promise to transfer goods and services
- Identify distinct obligations – measurable?

Five step process

Step 3 – Determine transaction price

- The price you expect to get for the goods and services
- Fixed or variable

Step 4 – Allocate transaction price

- Between performance obligations

Step 5 – Recognise revenue when performance obligations satisfied

- Goods/services transferred to customer
- Recognised over time if:
 - Customer consumes and receives benefit as service performed
 - Customer controls the asset as it is being created or enhanced
 - Asset usable by customer only and authority has enforceable right to payment for performance completed to date

IFRS 16 Leases

- Effective date 1/1/2019 therefore will be considered by CIPFA/LASAAC for adoption in 2019/20 Code
- Definition of a lease similar to IAS 17
 - A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration
- An entity will need to assess whether a contract contains a lease on a basis of whether a customer has the right to control the use of an identified asset over a period of time

IFRS 16 Leases

- Lessors – no substantial change (some additional disclosures)
- Lessee - all leases on balance sheet but optional exemptions for
 - leases of 12 months or less (short-term leases), and
 - leases of low value assets (eg laptops and office furniture)
- Summary – leasing standard will require a lessee to:
 - recognise lease assets and liabilities on the balance sheet (initially measured at the present value of unavoidable lease payments)
 - recognise depreciating of lease assets and interest on lease liabilities over the lease term
 - separate the total amount of cash paid into a principal portion and interest for cash flow statement

IFRS 16 Leases

- Eliminates operating or finance lease classification for lessees
- Discount rate is interest rate implicit in the lease or incremental borrowing rate
- Disclosures
 - Specific mandatory disclosure e.g. lease expenses, cash flows, mandatory analysis of lease liabilities
 - Additional principle based – allow users to assess effects of entering into leases e.g. variable payments, lease extensions

Update on General Regulatory and Technical Areas

LAAP Bulletin – Closure of 2015/16 Accounts & Related Matters

Section A – Additional guidance & clarification

- IFRS 13 Fair value measurement
- Update to the 2015/16 Code
 - Narrative Reporting
 - Use the term Narrative Report rather than Explanatory Foreword
 - Narrative Report should be fair, balanced and understandable

▪ Use of indices in valuations

“Indices should only be used by appropriate valuations experts, in support their professional judgement, when determining the measurements of items of property, plant and equipment.”

LAAP Bulletin – Closure of 2015/16 Accounts & Related Matters

Section B – Other issues affective the 2015/16 closure of accounts

- **Local Government Reform in Northern Ireland**
 - Reform
 - Opening Balance guidance
 - SeRCOP changes
 - Revaluations of non current assets
 - Application of discount rates to long-term provision

- LAAP Bulletin 99 – Local Authority Reserves and Balances

Audit Consideration for 2015/16

2015/16 Local Government Auditor considerations

Local Government Reorganisation

- Off-Street Parking Services: agreement of transfer balances from Central Government
- Prudential Code – Prudential Indicators & MRP policy

Legislative/ Statutory Guidance

- Prudential Code flexibilities
- General Power of Competence for NI
- SeRCOP – approach to overhead allocation to achieve total cost

2015/16 Local Government Auditor considerations

Asset Valuation

- Application of indices in intermediate years between full valuations

Asset Classification

- Long term Assets Held for Sale

Agent transactions

- Accounting for and disclosure around agent transactions
- Agent = acting as an intermediary
- Principal = Acting on your own behalf
- Where council acts as agent, transactions should not be reflected in the financial statements
- Disclosures: No statutory accounting or disclosure requirements

2015-16 Accounts Directions

Joint Committees

Joint Committees Accounts Directions

- Arc 21 – LG 05/16
- Rural Development Joint Committee – LG 02/16
- NWRWVG – 06/16
- Interreg IV A North East Partnership – LG 07/16

Arc 21 – LG 05/16

- LG 05/16 issued 15 March 2016
- Inclusion of Remuneration Report – gross income/expenditure > £2.5m
- Prior Years Figures
- No longer requirement to present unaudited accounts to committee
- Sign, approve and publish accounts by 30 September
- Pro Forma

Rural Development – LG 02/16

- LG 02/16 issued 18 March 2016
- Majority Rural Development committees ceased on 31 March 2015
- 2015/16 final accounts
- Governance Statement
- Accounts submission date 4 April
- Pro Forma – small joint committee

NWRWVG – LG 06/16

- LG 06/16 issued 11 March 2016
- Smaller government body therefore small committee proforma
- No longer requirement to present unaudited accounts to committee
- Sign, approve and publish accounts by 30 September
- Pro Forma – small joint committee

Interreg IV A North East Partnership – LG 07/16

- LG 07/16 issued 11 March 2016
- Smaller government body therefore small committee pro forma
- Ceased to exist 31 August 2015 – final accounts
- Pro Forma – small joint committee

District Council Accounts Direction

- Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
 - Unaudited statement of accounts do not need to be approved by a committee – Chief Financial Officer only needs to certify the unaudited statement of accounts before 30 June.
 - Statement of accounts must be approved by a committee by 30 September
 - Statement of accounts must be certified by Local Government Auditor by 30 September
- Remuneration Report

District Councils Accounts Direction

- Key areas for attention
 - Narrative Report
 - Valuation of non current assets
 - Actuarial valuations
 - Opening Balances
 - Capitalisation
 - Principal and agent transactions
 - Local Government Finance Act (NI) 2011 & Prudential Code

- No longer need to complete Service Income and Expenditure Analysis (Pro forma No.1)

2015-16 Pro-Forma Accounts

District 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

District 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

District 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

District 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

Joint Committees

Joint Committees

Arc 21

North West Region
Waste Management
Group

Rural Development

North East Partnership

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

Telling the Story

Changes in the Accounts

The background

- Removing clutter and better explain financial statements
 - Financial Statements, A Good Practice Guide
 - How to Tell the Story
 - Post Implementation and Streamlining and Simplification consultations
- Summer consultation
 - Review financial statements
 - Improve decision making and accountability
 - Comply with IFRS and statutory requirements

The consultation proposals/questions

- CIES reported on basis of organisation not SeRCOP
- Introduce new Funding Analysis
 - In narrative report
 - Reconcile funding (and budgeting) to accounting measures of financial performance
- Streamlined Movement in Reserves Statement (MiRS)
- Streamlined segmental note
- Introduce 2016/17 or allow early adoption?

Anticipated Changes

- CIES reported on basis of organisation not SeRCOP
 - Moved before MiRS in order of Statements
- New Expenditure and Funding Analysis
 - Note to the accounts (not narrative report)
- Streamlined Movement in Reserves Statement
- Subjective note
- 2016/17 introduction

Comprehensive Income and Expenditure Statement (CIES)

- Service analysis
 - Based on how authority operates
 - Segmental analysis
 - No overhead apportionment unless reported that way
 - Apply accounting standards
 - Depreciation and revaluation losses
 - Impairment and amortisation
 - Non-general grants and contributions
 - Employee benefits

Expenditure and Funding Analysis

- Service analysis
 - Based on how council operates
 - Segmental analysis
 - Reconciles general fund to CIES
- Other Income and Expenditure
 - Summarises lines below Net Cost of Services in CIES
- Prominence necessary for users of accounts

Note to the Expenditure and Funding Analysis – Narrative explanation

- Adjustments for capital purposes
 - Depreciation, impairment and MRP
 - Gains/losses on disposal
 - Capital gains
- Net charges for pension adjustments
- Other differences
 - Timing differences premiums and discounts

Additional note to the Expenditure and Funding Analysis

- If report certain items to management on segmental basis = report separately on a segmental basis
- **Revenues from external customers**
 - Revenues from transactions with other operating segments
 - Interest revenue
 - Interest expense
 - Depreciation and amortisation
 - Material items of income and expenditure
 - Council's interest in the profit or loss of associates & joint ventures accounted for by the equity method
 - Income tax expense or income
 - Material non-cash items

Movement in Reserves Statement

- Equivalent of the IAS 1 Presentation of Financial Statements of Changes in Equity
- Streamlined
 - Total Comprehensive Income and Expenditure line
 - Surplus/deficit on provision of services
 - Other Comprehensive Income and Expenditure
- Moved order of prominence for core financial statements
- Earmarked reserves line and columns removed
 - Separate note for purpose of reserves and what resources are not earmarked

Segmental note

- Segmental note no longer required in current format
- CIES cost of services analysis on segmental basis
- Expenditure and Funding analysed segmentally
- Other segmental income and expenditure

Subjective analysis disclosure note

- Nature of Expenses note
- Not required on segmental basis
- **Must disclose:**
 - **Employee benefits expenses**
 - **Depreciation, amortisation and impairment**
 - **Interest payments**
- **Suggested headings:**
 - Fees, charges & other service income
 - Surplus or deficit on associates & joint ventures
 - Interest & investment income
 - Income from district rate income
 - Government grants & contributions
 - Other service expenses
 - Gain or loss on disposal of non-current assets
 - Surplus or deficit on the provision of services

The future of SeRCOP

- No substantial changes to SeRCOP other than Service Expenditure Analysis no longer used in CIES
- Consequential changes as a result of changes to the Code
- Total cost still has an important role

Transition

- Applies from 2016/17
- 2015/16 restatement
- No early adoption

Key Guidance Areas

Accounting for Asset Revaluations

- Paragraph 4.1.2.37 of the Code: “revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.”
- Code requires assets to be revalued every five years as a minimum
- Rolling valuations within a short period

Valuation methodologies

Two valuation methodologies allowable under the Code:

- Eliminating Accumulated Depreciation
- Proportionate Re-statement
 - 2016/17 Code will remove the option of proportionate re-statement

Valuation methodologies - Example

The assumptions in the following illustrative examples include:

- The original asset has a useful life of 30 years
- At 31/3/20XX it is 10 years into its useful economic life
- The asset was revalued three years ago and has a revaluation reserve balance at 31/3/20XX of £1,106,768
- The current carrying value at 31/3/20XX is £3,040,435
- Revaluation has been carried out resulting in a value of £3,319,140 applied at the 1/4/20XX consistent with the authority's policy.

Valuation methodologies - Example

Illustrative Example

1. REVALUATION - Eliminating Accumulated Depreciation

	CURRENT VALUES			HISTORICAL VALUES			Revaluation Reserves
	Value	Deprn	NBV	Value	Deprn	NBV	
As at 31/3/20XX	3,496,500	(456,065)	3,040,435	2,900,500	(966,833)	1,933,667	1,106,768
As at 1/4/20XX	3,319,140	0	3,319,140				
Adjustment	(177,360)	456,065					

Journal 1/4/20XX

	Dr	Cr
Property, Plant and Equipment	456,065	177,360
Accumulated Depreciation		456,065
Revaluation Reserves		278,705

Revaluation Reserve Reconciliation

New Carrying Amount	3,319,140
Historic Cost Carrying Value	1,933,667
Difference in Revaluation Reserve	<u>1,385,473</u>
Existing Revaluation Reserve	1,106,768
Adjustment at 1/4/20XX	278,705
New Revaluation Reserve	<u>1,385,473</u>

Rolling Forward:

1. REVALUATION - Eliminating Accumulated Depreciation

	CURRENT VALUES			HISTORICAL VALUES			Revaluation Reserves
	Value	Deprn	NBV	Value	Deprn	NBV	
Op Bal As At 1/4/20XX	3,319,140	0	3,319,140	2,900,500	(966,833)	1,933,667	1,385,473
Depreciation Charge in Year		(150,870)	(150,870)		(96,683)	(96,683)	(54,187)
Cl Bal As At 31/3/20XY	<u>3,319,140</u>	<u>(150,870)</u>	<u>3,168,270</u>	<u>2,900,500</u>	<u>(1,063,516)</u>	<u>1,836,984</u>	<u>1,331,286</u>

The above example covers a revaluation and applying the new value as at the 1st April. This example uses the approach of eliminating the accumulated depreciation against the gross carrying amount. This is an upwards revaluation, therefore adding to the existing revaluation reserve balance. The roll forward takes the transactions through to the end of the financial year, 31/3/20XY.

Accounting for Asset Revaluations

- Proportionate restatement – no longer applicable under the Code from 2016/17
- Use of indices is not allowed under the Code
- Indices should only be used as a source of evidence to help determine if there has been a material change in assets value.

Discount Rates for Long Term Provisions

- Up until 31 March 2015, Councils have applied HM Treasury discount rates
- HM Treasury discount rates for the year ended 31 March 2016 have amended the long term rate from 2.2% to - 0.8%
- Code states that IAS 37 requires the use of an appropriate discount rate that reflects the current market assessments of the time value of money and specific risks to the liability.

Accounting for the transfers of functions

- Local Government reform took place on 1 April:
 - Bring forward the closing Balance Sheet for 2014/15 for the STC, Shadow Council and predecessor councils.
 - Adjust for assets and liabilities that have transferred together with an reserve movements
- Transfers of assets and liabilities is on a 'break-even' basis
 - Net amount of assets/liabilities is compensated for by a cash settlement &/or arrangement to contribute to the outstanding capital finance.
 - No gain or loss will be recognised
 - Increase/decrease in net worth of the transferring authorities will need to be included and disclosed in the Movement in Reserves Statements
- If there is an imbalance in the carrying amount of the assets and liabilities transferred, the difference will need to be written off
 - The code states that gains/losses as a result of reorganisation will be treated as a movement in the MIRS

Any Questions?

