



# **Code of Practice on Local Authority Accounting (‘the SORP’)**

## **Consultation on Future Governance Framework**

January 2008

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## **Executive Summary**

This consultation concerns the Local Government Accounting Code of Practice (the Code), and whether it should continue to be prepared under the aegis of the UK Accounting Standards Board (ASB). There are a number of uncertainties over when the Board's Financial Reporting Standards will fully converge with International Financial Reporting Standards (IFRS), and whether the ASB will continue to oversee sector-specific guidance such as the Code following IFRS implementation. These uncertainties, combined with the risk of an extended period of dual reporting under UK and international standards, following the Government's Budget 2007 announcement that it intends to publish Whole of Government Accounts on an IFRS basis from 2008/09 onwards, have triggered this consultation.

The Financial Reporting Advisory Board (FRAB) is an independent body that oversees central government and NHS accounting guidance. The CIPFA/LASAAC Local Authority SORP Board, which develops the Code, has considered the relative merits of the existing ASB-based Code governance framework, compared with an alternative linked to the FRAB. In particular it has considered the methods for avoiding adverse impacts on Council Tax as a result of accounting standard changes. Its provisional conclusion is that it should recommend a move to FRAB-linked governance framework for 2010/11 Code onwards as this will provide certainty for local authorities that the recently announced 2010/11 timetable for the completion of the transition to IFRS will not change.

CIPFA/LASAAC is seeking the input of key stakeholders by Thursday 20 March before taking a final decision on whether to recommend this change to Ministers in England, Scotland, Wales and Northern Ireland.

## Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') is developed by the CIPFA/LASAAC Local Authority SORP Board (CIPFA/LASAAC). It constitutes 'proper accounting practice' under local government legislation.

This consultation is concerned with ensuring the best possible long term governance arrangements for the Code in the light of the recently announced plans for the full implementation of International Financial Reporting Standards (IFRS) in local authority accounts for 2010/11.

The consultation paper considers the case for a Code governance framework change through examining:

- Recent changes in the overall public sector reporting landscape;
- Current Code governance framework;
- An alternative Code governance framework;
- Relative advantages of the two governance options.

Consideration of a Code governance framework change is on the basis that any new arrangements would apply to the 2010/11 Code onwards, with the existing arrangements applying for the 2009/10 Code.

It then requests comments from stakeholders on its provisional conclusion and sets out the way forward if this supported.

## Recent changes in the overall public sector reporting landscape

Local authorities have already been committed for to the eventual implementation of IFRS since 2004, when the UK Accounting Standards Board (ASB), which governs the framework under which the Code is developed, committed to IFRS-convergence. Since then the ASB has gradually been bringing its standards into line with IFRS. Consequent changes have then been made to the Code. As a result, local authorities have already taken significant steps towards IFRS implementation, particularly with the introduction of the UK versions of the IFRS-based financial instruments standards in their 2007/08 accounts.

In the 2007 Budget the Government announced that:

*'6.59 The annual financial statements of government departments and other entities in the public sector are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice [UKGAAP]. In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, this Budget announces that from the first year of the CSR period these accounts will be prepared using International Financial Reporting Standards adapted as necessary for the public sector.'*

*6.60 This Budget also announces the Government's intention that Whole of Government Accounts [WGA] will now be published for the first time for the 2008/09 financial year. This revised timetable is to allow time to complete alignment of local and central government accountancy policies and to enable WGA to be prepared on the new IFRS basis.'*

Moving to IFRS will happen whichever framework local authority guidance is governed by and developed under. However, delivery of the Government's commitment raises a range of specific issues for local authorities, the most important of which is the need to avoid any adverse impact on Council Tax. There are also a number of technical issues that will need to be resolved, particularly around accounting for PFI arrangements.

These local authority specific issues have been considered in each of the subsequent CIPFA/LASAAC meetings. On the basis of research to date, it appears that the immediate practical problems of WGA data collection can be addressed satisfactorily without creating significant additional burdens in the transitional period until full IFRS implementation in local government. CIPFA/LASAAC has therefore decided that:

- For 2008/09 and 2009/10 the Government's policy decision should be implemented for local government by continuing to adopt internationally based financial reporting standards within the Code through the application of UK GAAP (which continues to follow the ASB's convergence agenda) while working to ensure that consolidation information, appropriate to the sector, is available for local government for WGA; and
- 2010/11 is the most appropriate time to complete the transition to IFRS in local authorities' own accounts.

The commitment to achieving this timetable was however driven by the need to reduce inconsistencies in the treatment of certain items across the public sector, and minimise the period of dual reporting arising from different Code and WGA requirements.

### **Current ASB-based Code governance framework**

The Code is developed by CIPFA/LASAAC, which is a standing committee of Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority Scotland Accounts Advisory Committee (LASAAC). Its current constitution is set out in Appendix A. It has been recognised by the ASB for the purpose of issuing Statements of Recommended Practice (SORPs). SORPs provide specific accounting guidance for sectors that have special accounting or financial reporting issues that require the clarification or interpretation of accounting standards.

As a condition of recognition, CIPFA/LASAAC has agreed to follow the ASB's Code of Practice for bodies recognised for issuing SORPs. The additional requirements this imposes are summarised in column 3 of the table in Appendix C. The Code has been amended annually in the recent past for changes in the UK Financial Reporting Standards and/or legislation affecting local authorities.

In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21 (2) of the Local Government Act 2003. In Scotland, the Code constitutes 'proper accounting practice' under section 12 of the Local Government in Scotland Act 2003. In Northern Ireland, the Code's status and authority derive from regulations under article 24 of the Local Government (Northern Ireland) Order 2005.

CIPFA also publishes Guidance Notes on the detailed application of SORP requirements. These do not form part of the SORP, and are developed under CIPFA's Local Authority Accounting Panel, rather than CIPFA/LASAAC.

If the current ASB-based Code governance framework continues to be applied for 2009/10 onwards, then local authorities will continue to follow the convergence agenda and timetable of the ASB. Its currently announced plans are that further IFRS based UK standards should be introduced with a common effective date, currently estimated to be financial years beginning on or after 1 January 2009. UK GAAP would then become fully IFRS compliant. This would allow IFRS to be implemented fully in local authorities own accounts from 2010/11.

However there are a number of key uncertainties that increasingly threaten this scenario:

- Whether UK GAAP for large publicly accountable non-listed entities will continue to exist;
- If it does, whether the ASB's planned implementation approach is adopted, and, if so, whether the estimated date of financial years beginning on or after 1 January 2009 can be achieved – any delay beyond 2009 would probably prevent IFRS transition for local authorities until after 2010/11;
- Whether SORP's will continue to exist - there is no equivalent to SORPs at present under IFRS. In its March 2005 Exposure Draft on the role of the Accounting Standards Board, the ASB indicated that neither the ASB nor the Urgent Issues Task Force (UITF) should seek to issue interpretations of IFRS (including UK standards based on IFRS). Whilst the Exposure Draft indicates that it may be appropriate for the ASB to maintain its procedures for SORPs, this may not be sustainable in the longer term if the affected entities prepare their financial statements under IFRS.

The timing and outcome of the ASB's decisions about the factors listed above are all uncertain, and are likely to remain so for some time to come. However all are likely to have a bearing on whether the Code's current ASB-based governance framework remains viable and desirable. In view of the fact that uncertainty over the ASB's plans may prevent the adoption of IFRS in local authorities' own accounts until after 2010/11, CIPFA/LASAAC has decided to consult on a potential alternative Code governance framework.

### **The alternative FRAB-linked Code governance framework**

The Financial Reporting Advisory Board (FRAB) is an independent body, which acts as an independent element in the standard setting process for central government, the National Health Service and WGA. It reviews whether the interpretations or adaptations of UK GAAP and IFRS in the overarching Government Financial Reporting Manual (FRM) are appropriate in the public sector context. Further background on the FRAB and how it operates is provided in Appendix B.

The FRAB could potentially undertake an analogous role in relation to the Code. From the perspective of individual local authorities, this governance change would have little practical impact, because it would still involve:

- Introducing an IFRS-based Code similar to the existing UK GAAP-based version of the Code;
- Development and maintenance of the Code being controlled by CIPFA/LASAAC, which has significant local authority practitioner input; and

- Avoidance of adverse Council Tax impacts being of fundamental concern.

Implementing this option would however make changes to the way in which CIPFA/LASAAC operates and require a number of changes to its current constitution. These are set out in Appendix C, alongside the proposed consequential changes to the FRAB's own constitution.

Although this option might be seen as infringing on the independence of local government financial reporting arrangements by increasing HM Treasury's involvement, this is not the case for the following reasons:

- the FRAB's role would be advisory only;
- it's remit would be restricted to the technical rules of accounting and minimum disclosure requirements (as they are for central government and NHS bodies in Scotland);
- there would be the ability to depart from the FReM for local government-specific reasons, as NHS Trusts and Foundation Trusts already do; and
- the matters considered by the FRAB and its conclusions are reported to Parliament annually (see [www.hm-treasury.gov.uk/media/B/3/frab\\_report10.pdf](http://www.hm-treasury.gov.uk/media/B/3/frab_report10.pdf) for the FRAB's 2006/07 report).

### Relative advantages of the two governance options

Both the two future Code governance options would have the same practical impact on local authorities, as they would require the implementation of an IFRS-based Code. However, they have different balances of strengths and weaknesses. The table below summarises how each option might meet the key requirements of an effective IFRS-based Code governance arrangement up to the point where convergence between UK GAAP and IFRS is achieved. This is based on the assumption that the proposed changes in Appendix C are made, and is cross-referenced where appropriate to the relevant section of the table in Appendix C:

Key Requirement	App C x-ref	Option 1 ASB-based framework	Option 2 FRAB-linked framework
Certainty over ability to complete IFRS transition in local authorities' own accounts in 2010/11	-	Low	High
Certainty over long term viability	-	Low	High
Minimises risks of dual reporting in own accounts and for WGA	-	Low	High
Ability to influence top level standards/guidance directly	10	Low	Medium
External credibility	3,4,5	High	High

## **CIPFA/LASAAC provisional conclusion**

CIPFA/LASAAC debated all the factors in the table above at its December 2007 meeting. In determining which possible Code governance framework to recommend, the following advantages and disadvantages were seen to be the more critical ones.

### ***Option 1 – Continue with the current ASB-based framework***

The main benefits of this option, if it were to remain viable, would be continuity with current governance arrangements and being part of a well-established arrangement overseen by the ASB for preparing sector specific recommended accounting practices. The ASB also has experience of IFRS through the convergence process it is itself undertaking.

The main disadvantage is that the ability to adopt the 2010/11 timetable for moving to full compliance with IFRS remains uncertain as a result of the absence of firm ASB plans. There is therefore the possibility of an extended period of dual reporting under both UK GAAP and IFRS in local authorities own accounts and in their WGA returns respectively.

In addition, it is unclear whether the ASB will have any longer term role in approving sector specific guidance such as the Code.

### ***Option 2 – Move to a FRAB-linked framework.***

The main advantages of this option are that the uncertainty over whether the 2010/11 IFRS transition timetable can be delivered, and the eventual viability of the Code continuing as a SORP under the ASB would be avoided. The FRAB experience of moving central government onto an IFRS basis would also be valuable during the transition process.

In addition, the option should minimise the risk of dual reporting as a result of different requirements for WGA consolidation returns and local authority accounts. There would be the further advantage of being able to influence directly the development of public sector accounting through having local government sector representatives on the FRAB. This is increasingly closely linked to the central government budgeting regime within which local government funding decisions are made.

The main disadvantage of this option is that it requires significant changes to the Code approval process at the same time as the IFRS-based Code itself is being developed. This should not however impact on delivery of the IFRS-based Code in accordance the 2010/11 timetable requirements.

***Having considered the balance between the above factors, CIPFA/LASAAC's provisional conclusion was that it should recommend a move to the FRAB-linked governance option for the 2010/11 Code onwards.***

## **Way forward**

CIPFA/LASAAC will meet in April to consider the results of the consultation, and to take its final decision on whether to recommend a move to the FRAB-linked Code governance framework to Ministers in CLG, the Scottish Government, the Welsh Assembly Government, and the Northern Ireland Executive.

Only if all the relevant Ministers give their consent, and the proposed changes to the FRAB's constitution are agreed, could the Code governance framework change proceed.

There would then be a transition period with development of the 2009 Code (covering 2009/10), which would be the last version to be based on UKGAAP, being undertaken within the existing ASB-based governance framework. Work on the IFRS-based version of the Code (to come into force for 2010/11) which is already in its early stages would then be undertaken within the new FRAB-linked governance framework.

Press releases will be made and /or progress reports will be posted on the CIPFA website at appropriate stages of this process.

## **Specific Matters for Comment**

- 1. Do you support CIPFA/LASAAC's provisional conclusion that it should recommend a move to the FRAB-linked governance option? Please explain the reasons for your response.**
- 2. Are there any other factors that you believe CIPFA/LASAAC should take into account in determining its final recommendation? If so, please explain the reasons for your response.**

Responses to the consultation paper should be submitted, preferably by e-mail, so that they will be received by Thursday 20 March 2008. All comments will be considered a matter of public record.

Comments should be sent to:

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## Appendix A

### CIPFA/LASAAC Local Authority SORP Board – Current Constitution

#### 1 TERMS OF REFERENCE

1.1 The CIPFA/LASAAC Local Authority SORP Board (CIPFA/LASAAC) is established as a standing committee of CIPFA and LASAAC for the purpose of preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom, the Statement of Recommended Practice (SORP) for the sector.

1.2 The statement by the Accounting Standards Board at the front of the SORP includes the following statements:

‘The CIPFA/LASAAC Joint Committee<sup>1</sup> (the Joint Committee), a standing committee of CIPFA and LASAAC, has confirmed that it shares the ASB’s aim of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the Joint Committee has agreed to follow the ASB’s Code of Practice on the Development of SORPs.’

1.3 The Board’s terms of reference are:

- (i) To prepare, maintain, develop and issue the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).
- (ii) To follow the ASB’s Code of Practice on the Development of SORPs.
- (iii) In addition to the requirements of the ASB, finalisation of the Code of Practice requires the approval of both CIPFA (through report to CIPFA’s Public Finance and Management Board) and LASAAC.

#### 2 COMPOSITION

2.1 The composition of CIPFA/LASAAC is:

- the Chair (see section 3 below)
- 9 nominations from CIPFA covering the geographical areas of England and Wales
- 5 nominations from LASAAC covering the geographical area of Scotland
- 2 nominations from Northern Ireland

2.2 Nominations from each of the geographical areas should include both local government practitioners and auditors.

2.3 Additionally, one nomination from each of the following shall have the right to attend as an observer:

- ASB
- CLG

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<sup>1</sup> Now formally renamed the CIPFA/LASAAC Local Authority SORP Board

- H M Treasury
  - Scottish Government
  - Welsh Assembly Government
- 2.4 Staff from the CIPFA Secretariat also attend and provide support to CIPFA/LASAAC. The Technical Manager (Local Government Accounting and Financial Reporting) acts as Secretary to CIPFA/LASAAC.
- 2.5 The ASB's Code of Practice on the development of SORPs includes the following requirement:
- 'Drafting of the SORP must be undertaken either by the SORP-making body itself or by a working party of the SORP-making body. In either case the process should ensure the participation of representatives of the industry or sector concerned, independent outsiders on behalf of the wider public interest and, where possible, users of financial statements, and have sufficient technical accounting support. The arrangements proposed (including membership of any working party), and any changes in those arrangements, should be notified in advance to the ASB, so that the ASB may satisfy itself that these requirements are met.'
- 3 CHAIR
- 3.1 The Chair is selected by CIPFA/LASAAC through open advertisement and competition.
- 3.2 The appointment is for a fixed term renewable of 3 years.
- 3.3 The Chair has a casting vote.
- 4 SECRETARIAL SUPPORT
- 4.1 Secretarial support for the Board is provided by CIPFA.
- 4.2 The Technical Manager (Local Government Accounting and Financial Reporting) acts as Secretary to CIPFA/LASAAC.
- 4.3 The Assistant Director (Local Government Finance and Policy) and the Head of CIPFA in Scotland attend CIPFA/LASAAC on a regular basis.
- 4.4 Other members of the CIPFA Secretariat may be involved in supporting the work of CIPFA/LASAAC and attend as required.
- 5 BOARD APPOINTMENTS
- 5.1 Appointments to CIPFA/LASAAC are made by nomination from:
- CIPFA (Public Finance and Management Board) for the CIPFA nominees
  - LASAAC for the LASAAC nominees
  - the Department of the Environment (Northern Ireland) for the Northern Ireland nominees

and are subject to the governance arrangements of those bodies and approval by the ASB. All nominations are personal to the individuals concerned – ie substitutions for particular meetings are not in order.

5.2 Observers are appointed by nomination from

- ASB
- CLG
- H M Treasury
- Scottish Government
- Welsh Assembly Government

and are subject to the governance arrangements of those bodies and approval by the ASB. All nominations represent their organisation. They may be represented by another member of their organisation on an exceptional basis.

5.3 Members and observers must not use their position for personal gain in either business, political or social relationships. Therefore a member or observer who has, or may be perceived to have, such a personal interest in a particular matter under consideration should declare that interest and withdraw from all discussions relating to it. In addition, members should take no part in any vote on such a matter.

6 BOARD MEETING FREQUENCY AND AGENDAS

6.1 CIPFA/LASAAC normally has four meetings per year, the venue alternating between London and Scotland. Meetings are scheduled in advance but may be changed by agreement. Fewer / additional meetings may be held by agreement.

6.2 Work between meetings is progressed through electronic communication, meetings of groups progressing specific items, and by the Secretariat in consultation with the Chair.

7 QUORUM

7.1 A quorum for meetings is 7 members.

7.2 Non-quorate meetings may discuss and formally note matters for future report, but have no executive authority. Urgent decisions, at the Chair's discretion, should be dealt with by correspondence.

7.3 Different arrangements apply to the issue by CIPFA/LASAAC of an invitation to comment on proposals for changes to the SORP and to the finalisation of the SORP, which require that at least 50% of members consent.

## Appendix B

### FRAB constitution and operation

The FRAB is an independent body fulfilling the statutory role as the 'group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards' for government. FRAB acts as an independent element in the process of setting accounting standards for central government and to help to ensure that any adaptations of, or departures from, the generally accepted accounting practice are appropriate. The Board also advises the Treasury on the implementation of accounting policies specific to whole of government accounts.

The FRAB was originally set up in 1996 to advise on the development of the Resource Accounting Manual (RAM), which brought together and codified GAAP for departments and their agencies, in order to support the introduction of resource accounting. In order to provide consistent accruals-based information to support the introduction of resource budgeting and WGA, there has been a gradual extension of the FRAB's remit:

Area of government	Year remit extended
NDPBs	1999/00
Trading Funds	1999/00
Scottish Executive	2001/02
Northern Ireland Executive	2001/02
NHS Trusts in England	2001/02
NHS Trusts in Wales	2003/04
NHS Trusts in Northern Ireland	2003/04
Foundation Trusts	2004/05

In each case, the remit extension was with the agreement of the sector concerned, and the underlying accounting guidance was reviewed and brought into line with the over-arching principles set out in the RAM. As a result of different sets of remit extension negotiations, the precise details of the FRAB's remit varies between the various areas, as set out in boxes 4 and 5 of the FRAB current constitution column of the table in Appendix C.

During 2004/05, a fundamental review was undertaken in order to allow the various sources of accounting guidance to be brought together with the rest of the accounting guidance within the FRAB's remit. The resulting Government Financial Reporting Manual (FReM) replaced the RAM and the existing sources of guidance for the first 4 types of body in the table above with effect from the start of the 2005/06 financial year, bringing together the top-level accounting guidance for all central government bodies into one place for the first time. The individual financial reporting manuals for the various types of NHS Trusts and Foundation Trusts have however been retained because they provide regulatory framework-specific guidance.

Proposals for a change to the FReM are taken to FRAB following a consultation of a minimum of six weeks with the Treasury, the devolved administrations and a consultation network in departments, NDPBs and trading funds. The current FReM is based on UK GAAP. The Treasury began the preparation of an IFRS-based FReM in May 2006. It was published in early 2008 and is available via [www.financial-reporting.gov.uk/IFRS%20Based%20FReM.htm](http://www.financial-reporting.gov.uk/IFRS%20Based%20FReM.htm).

Appendix C

Summary of changes proposed to implement the FRAB-linked governance framework for the Code

	CIPFA/LASAAC - Current Constitution	Additional ASB SORP Code of Practice Requirements currently in force for CIPFA/LASAAC	FRAB - Current Constitution
<p><b>1 General Context</b></p>	<p><b><u>Proposed Change</u></b> <i>Set out the primary aims of reporting by local government bodies, consistent with those in revised FRAB constitution.</i></p>	<p>The role of the Accounting Standards Board (ASB) is to issue accounting standards. It is recognised for that purpose under the Companies Act 2006. It took over the task of setting accounting standards from the Accounting Standards Committee in 1990.</p> <p>The ASB is an operating body of the Financial Reporting Council – the UK’s independent regulator responsible for promoting confidence in corporate reporting and governance.</p>	<p>The primary aims of financial reporting by central government bodies are to demonstrate to the public and their representatives in the UK and Scottish Parliaments, the Northern Ireland Assembly and the Welsh Assembly Government:</p> <ul style="list-style-type: none"> <li>• the financial performance of the bodies;</li> <li>• their stewardship of public funds and assets; and</li> <li>• that, where appropriate, public monies and other resources have been used for the purposes intended by the Parliaments or the Assemblies;</li> </ul> <p>and to provide the Parliaments and the Assemblies with information which is reliable and sufficient as a basis for:</p> <ul style="list-style-type: none"> <li>• their consideration and approval of the levels of resources and cash voted to services; and</li> <li>• their examination of performance in carrying out policies, function, programmes and projects.</li> </ul> <p>Financial reporting is also intended to underpin the UK Government’s planning, monitoring and management of public expenditure.</p> <p><b><u>Proposed Change</u></b> <i>Include primary aims of reporting by local government bodies, consistent with those in revised CIPFA LASAAC constitution.</i></p>

	CIPFA/LASAAC - Current Constitution	Additional ASB SORP Code of Practice Requirements currently in force for CIPFA/LASAAC	FRAB - Current Constitution
<p><b>2 Financial Reporting Requirements Setting Authority</b></p>	<p><b><u>Proposed Change</u></b>  <b><i>Summarise where authority to set financial reporting requirements for local government rests in England, Scotland, Wales and Northern Ireland (CLG, Scottish Government, Welsh Assembly Government, NI Executive).</i></b></p>	<p>In its foreword to Accounting Standards, the ASB specifies that 'the prescription of accounting requirements for the public sector in the United Kingdom is a matter for the Government'. However there is an expectation that its accounting standards will be relevant to public benefit entities, which include both the not-for-profit and public sectors (referred to collectively as public benefit entities).</p> <p>Statements of Recommended Practice (SORPs) provide supplementary guidance on accounting matters for various forms of entities including entities operating in the public benefit and private sectors.</p> <p>The ASB's Committee on Accounting for Public-benefit Entities (CAPE) advises on matters relating to public benefit and similar entities (excluding central government and the NHS), including reviewing applications from relevant bodies seeking to develop SORPs. These bodies are expected to meet criteria laid down by the ASB and to develop their SORP proposals in conformity with the ASB's Code of Practice. Each SORP is required to carry a statement by the ASB confirming, as appropriate, that the SORP does not appear to contain any fundamental points of principle that are unacceptable in the context of current financial reporting practice.</p>	<p>The authority to develop financial reporting requirements rests with the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland in respect of accounts meeting the criteria set out in [section 4] below.</p> <p><b><u>Proposed Change</u></b>  <b><i>Include summary of where authority to set financial reporting requirements for local government rests consistent with that in revised CIPFA/LASAAC constitution.</i></b></p>

	<b>CIPFA/LASAAC - Current Constitution</b>	<b>Additional ASB SORP Code of Practice Requirements currently in force for CIPFA/LASAAC</b>	<b>FRAB - Current Constitution</b>
<b>3 Board Mandate</b>	<p>The CIPFA/LASAAC Joint Committee is established as a standing committee of CIPFA and LASAAC for the purpose of preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom, the Statement of Recommended Practice (SORP) for the sector.</p> <p>The statement by the ASB at the front of the SORP includes the following statements:</p> <p>'The CIPFA/LASAAC Joint Committee (the Joint Committee), a standing committee of CIPFA and LASAAC, has confirmed that it shares the ASB's aim of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the Joint Committee has agreed to follow the ASB's Code of Practice on the Development of SORPs.'</p> <p><b><u>Proposed Changes</u></b></p> <p><b>1 Remove references to the SORP and ASB.</b></p> <p><b>2 Clarify relationships with financial reporting requirement setting authorities and the legal framework for the Code.</b></p>	<p>The ASB established the Committee on Accounting for Public-benefit Entities in 1994 as one of two specialist committees to advise it on proposals for Statements of Recommended Practice (SORPs) put forward by specialist bodies developing accounting practice for their sectors.</p>	<p>Under section 24 of the Government Resources and Accounts Act 2000 the Treasury is required to consult an advisory group on financial reporting principles and standards for resource accounts and Whole of Government Accounts. Under section 20 of the Government Resources and Accounts Act (NI) 2001, the Department of Finance and Personnel, NI is also required to consult with and take account of the recommendations made by this advisory group before issuing directions on resource accounts or determining the form and content of Whole of Government Accounts (NI). The Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board will be the advisory group, and thus will provide an independent element into the process of setting financial reporting standards for the UK Government, the Scottish Ministers and the Department of Finance and Personnel, NI.</p> <p><b><u>Proposed Change</u></b></p> <p><b>Summarise relationships with financial reporting requirement setting authorities in respect of local government and the legal framework for the Code.</b></p>

	<b>CIPFA/LASAAC - Current Constitution</b>	<b>Additional ASB SORP Code of Practice Requirements currently in force for CIPFA/LASAAC</b>	<b>FRAB - Current Constitution</b>
<b>4 Terms of Reference</b>	<p>To prepare, maintain, develop and issue the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).</p> <p>To follow the ASB's Code of Practice on the Development of SORPs.</p> <p>In addition to the requirements of the ASB, finalisation of the Code of Practice requires the approval of both CIPFA (through report to CIPFA's Public Finance and Management Board) and LASAAC.</p> <p><b><u>Proposed Changes</u></b></p> <p><b>1 Remove references to the SORP and ASB.</b></p> <p><b>2 Make sources of authority explicit, including in respect of parishes.</b></p> <p><b>3 Include duty to consider advice from FRAB and to identify the reasons for any departure from the treatment in the FReM.</b></p>	<p>a) To review applications from relevant bodies seeking to develop SORPs for public-benefit and similar entities as referred to by the ASB and, in the light of the ASB's current policy, to recommend to the ASB whether such bodies should be approved.</p> <p>b) To review SORPs relating to public-benefit and similar entities and recommend to the ASB whether to give its statement of negative assurance and, in particular</p> <ul style="list-style-type: none"> <li>• to confirm that the SORPs comply with current accounting standards, the ASB's Statement of Principles, and generally accepted accounting practice; or that any departures from there are unavoidable and necessitated by the Government's requirements (as envisaged in the Foreword to Accounting Standards);</li> <li>• to confirm that the procedures laid down in the ASB's policy for the development of SORPs have been adhered to; and</li> <li>• to conduct discussions, on behalf of the ASB, with SORP-making bodies</li> </ul> <p>c) To advise the ASB generally on matters relating to public-benefit and similar entities, and to conduct discussions on its behalf, as requested by the ASB.</p>	<p>The Board will provide independent advice to the Treasury, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.</p> <p>The Board will advise the Treasury, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland on the application of financial reporting standards and principles:</p> <p>i) where the Treasury, the Welsh Assembly Government and the Department of Finance and Personnel, Northern Ireland are responsible for issuing reporting requirements, in respect of:</p> <ul style="list-style-type: none"> <li>• Departmental resource accounts</li> <li>• Supply financed executive agencies</li> <li>• Non-departmental public bodies (NDPBs)</li> <li>• Trading funds</li> <li>• Whole of Government Accounts</li> <li>• NHS trusts in England and Wales, and HSS trusts in Northern Ireland</li> <li>• NHS Foundation Trusts in England</li> </ul> <p><b><u>Proposed Change</u></b></p> <p><b><i>Include duty to advise CIPFA/LASAAC on behalf of Ministers of the financial reporting requirement setting authorities.</i></b></p>

	<b>CIPFA/LASAAC - Current Constitution</b>	<b>Additional ASB SORP Code of Practice Requirements currently in force for CIPFA/LASAAC</b>	<b>FRAB - Current Constitution</b>
		<p>d) To foster a common developmental philosophy for public and private sector reporting, with the aim of minimising differences between public and private sector practices.</p> <p>e) To develop a common policy in respect of financial reporting by public-benefit and similar entities.</p>	
<b>5 Restrictions on Terms of Reference</b>			<p>ii) where the Scottish Ministers are responsible for issuing reporting requirements, in respect of:</p> <ul style="list-style-type: none"> <li>• Accounts falling under sections 19 and 20 of the Public Finance and Accountability (Scotland) Act 2001.</li> <li>• Accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction.</li> </ul> <p>The Board's advice to the Scottish Ministers will be restricted to the technical rules of accounting and to minimum disclosure requirements. It will not extend to the format of accounts or to disclosures beyond the minimum requirements.</p> <p>The Board's advice to the Department of Finance and Personnel, Northern Ireland will incorporate accounting, formatting and minimum disclosure requirements.</p> <p><b><u>Proposed Change</u></b></p> <p><b><i>Include same restriction on scope of advice to CIPFA/LASAAC as for Scottish Ministers.</i></b></p>

	CIPFA/LASAAC - Current Constitution	Additional ASB SORP Code of Practice Requirements currently in force for CIPFA/LASAAC	FRAB - Current Constitution
<b>6 Standard Setting Framework</b>	<p><b><u>Proposed Change</u></b></p> <p><i>Include explicit statement of financial reporting standards hierarchy, including position/role of IPSASSs.</i></p>		<p>Financial reporting by central government bodies should be based on generally accepted accounting practice (GAAP) adapted where appropriate to take account of the public sector context. For Resource Accounts prepared by government departments for which an Estimate is laid before the House of Commons and for Whole of Government Accounts (UK) this requirement is set out in sections 5 and 9 of the Government Resources and Accounts Act 2000. A similar requirement is included in sections 9 and 14 of the Government Resources and Accounts Act (Northern Ireland) 2001.</p> <p><b><u>Proposed Change</u></b></p> <p><i>Include explicit statement of financial reporting standards hierarchy, including position/role of IPSASSs.</i></p>
<b>7 Due Process/ Guidance Development</b>	<p><b><u>Proposed Change</u></b></p> <p><i>Bring in relevant due process requirements from guidance to SORP-making bodies.</i></p>	<p>The SORP-making body should conduct its proceedings in a spirit of openness and follow due process involving wide consultation. In addition to organisations and individuals in the industry or sector concerned, those invited to comment should normally include member bodies of the CCAB, auditors actively involved in the industry or sector and relevant regulators and Government departments.</p> <p>Before publishing the final SORP, the SORP-making body should invite public comment, normally by means of a published exposure draft, allowing a reasonable period for comments. The ASB will wish to be satisfied that the period given for responses allows due process; a</p>	<p>The Board will decide how it reaches its conclusions.</p> <p>The Board will examine all amendments to the guidance in respect of the bodies listed above, with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP, due to public sector and spending control contexts, are fully explained and justified. The Board will also examine, with the same aim, amendments to accounts directions referred to the Board, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel Northern Ireland.</p>

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		<p>minimum period of three months should be given, although, where a case can be made, a shorter period may be acceptable.</p> <p>Comments may also be sought on a published statement of intent; however, it will not be acceptable to dispense with publication of an exposure draft, even following the publication of a statement of intent. The SORP-making body should attempt to secure publicity for its exposure drafts and statements of intent in journals specialising in the relevant industry or sector and in accountancy journals.</p> <p>During development of a SORP (or its revision) it is the responsibility of the SORP-making body to identify potential divergences from accounting standards and inform the ASB of them at an early stage.</p> <p>All exposure drafts and final SORPs should be presented to the relevant ASB committee for comment before publication. At each pre-publication stage sufficient time should be given to the committee to allow any necessary changes to be determined and incorporated. The ASB will provide a negative assurance 'opinion' on the SORP, outlining the reason for any qualification.</p> <p>The ASB will wish to be satisfied that public comments have been appropriately invited and considered. Before publishing the SORP the SORP-making body should</p>	<p><b><u>Proposed Changes</u></b></p> <p><b><i>1 Include explicit statement on how guidance will be developed.</i></b></p> <p><b><i>2 Include explicit requirements on consultation on FReM changes and analysis of responses.</i></b></p>

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		<p>provide the ASB with copies of the comment letters, a summary or analysis of the main comments and an indication of how they have been dealt with, in sufficient time to allow any necessary changes to be incorporated.</p> <p>The invitation to comment including in exposure drafts should state that comments will be regarded as on the public record, unless confidentiality is requested. Copies of comments that are on the public record should be made available on request at a reasonable charge.</p>	
<p><b>8 Review of Guidance</b></p>	<p>of <b><u>Proposed Change</u></b>  <b><i>Bring in relevant due process requirements from guidance to SORP-making bodies.</i></b></p>	<p>The SORP-making body should keep under review all the SORPs for which it is responsible. In particular, the body should consider:</p> <ul style="list-style-type: none"> <li>• any implications for the SORPs of new and proposed accounting standards. In the interest of the SORP-making body and its constituency any divergences must be notified to the ASB as soon as is practicable.</li> <li>• any evidence of widespread failure in the relevant industry or sector to follow any part of the guidance in a SORP that has come to the attention of the SORP-making body.</li> <li>• any developments in the industry or sector that suggest that further guidance on accounting matters is desirable.</li> </ul>	<p>The Treasury (in conjunction with the Department of Health in respect of NHS trusts in England and the Independent Regulator of NHS Foundation Trusts in respect of NHS Foundation Trusts in England), the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland:</p> <ul style="list-style-type: none"> <li>• Will ensure that all relevant matters, including proposed changes to the guidance, or, as appropriate, accounts directions, in respect of accounts meeting the criteria above, are brought to the Board's attention within a reasonable time. In particular, changes to Financial Reporting Standards and other elements of GAAP that affect such guidance or accounts directions will, as far as possible, be brought to attention in sufficient time to enable their implementation, as appropriate,</li> </ul>

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			<p>within the same timescale as changes are to be made generally.</p> <ul style="list-style-type: none"> <li>• Will examine all issues raised by the Board within its terms of reference.</li> <li>• Will consider all advice received from the Board</li> </ul> <p><b><u>Proposed Change</u></b> <b><i>Include appropriate local authority references.</i></b></p>
<b>9 Board Chairman</b>	<p>The Chair of CIPFA/LASAAC is selected by the Joint Committee through open advertisement and competition.</p> <p>The appointment is for a fixed term renewable of 3 years.</p> <p>The Chair has a casting vote.</p>		<p>An independent Chairman, nominated by the Chief Accountancy Adviser to the Treasury, and in respect of future appointments, in agreement with the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.</p> <p><b><u>Proposed Change</u></b> <b><i>Include requirement to consult CLG on future choice of Chairman.</i></b></p>
<b>10 Board Composition/ Membership</b>	<ul style="list-style-type: none"> <li>• The Chair</li> <li>• 9 nominations from CIPFA covering the geographical areas of England and Wales</li> <li>• 5 nominations from LASAAC covering the geographical area of Scotland</li> <li>• 2 nominations from Northern Ireland</li> </ul> <p>Nominations from each of the geographical areas should include both local government practitioners and auditors.</p>	<p>Drafting of the SORP must be undertaken either by the SORP-making body itself or by a working party of the SORP-making body. In either case the process should ensure the participation of representatives of the industry or sector concerned, independent outsiders on behalf of the wider public interest and, where possible, users of financial statements and have sufficient technical accounting support. The arrangement proposed (including membership of any working party), and any changes in those arrangements, should be notified in advance to the ASB, so that the ASB may satisfy itself that these requirements are met.</p>	<ul style="list-style-type: none"> <li>• 1 member nominated by the Treasury (a Treasury Official)</li> <li>• 1 member nominated by the Scottish Ministers</li> <li>• 1 member nominated by the Department of Finance and Personnel, Northern Ireland</li> <li>• 1 member nominated by the Welsh Assembly Government</li> <li>• 1 member nominated by the Comptroller and Auditor General</li> <li>• 1 member nominated by the Auditor General for Scotland</li> <li>• 1 member nominated by the Audit Commission</li> </ul>

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	<p>Additionally, one nomination from each of the following shall have the right to attend as an observer:</p> <ul style="list-style-type: none"> <li>• ASB</li> <li>• CLG</li> <li>• H M Treasury</li> <li>• Scottish Government</li> <li>• Welsh Assembly Government</li> </ul>	<p>CAPE membership includes CIPFA nominee and a local authority preparer is due to be appointed.</p> <p>None of the ASB members has recent experience of local authority accounts.</p>	<ul style="list-style-type: none"> <li>• 3 members nominated by the Finance Directors of UK government departments to represent respectively departments, trading funds, and non-departmental public bodies</li> <li>• 1 member nominated by the Department of Health</li> <li>• 1 member nominated by the Executive Chair of Monitor, the Independent Regulator of NHS Foundation Trusts</li> <li>• 1 member nominated by the national Statistician</li> <li>• 1 member nominated by the Accounting Standards Board</li> <li>• 1 member, an independent economist, nominated by the Head of the Government Economic Service</li> <li>• 1 member nominated by the Chief Accountancy Advisor to the Treasury and approved by the Chairman</li> </ul> <p>Members will normally be appointed for five year, renewable, terms. In addition there is an Observer from Parliament and one for the CIPFA/LASAAC Local Authority SORP Board.</p> <p><b><u>Proposed Changes</u></b></p> <p><b><i>CIPFA/LASAAC observer to become full member, new CLG-nominated member, and one local authority preparer nominated by CIPFA/LASAAC.</i></b></p>

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<b>11 Secretarial Support</b>	<p>Secretarial support for the CIPFA/LASAAC Joint Committee is provided by CIPFA.</p> <p>The Technical Manager (Local Government Accounting and Financial Reporting) acts as Secretary to the Joint Committee.</p> <p>The Assistant Director (Local Government Finance and Policy) and the Head of CIPFA in Scotland attend the Joint Committee on a regular basis.</p> <p>Other members of the CIPFA Secretariat may be involved in supporting the work of the Joint Committee and attend as required.</p>		The Treasury will provide the secretariat to the Board.
<b>12 Meeting Frequency and Agendas</b>	<p>The Joint Committee normally has four meetings per year, the venue alternating between London and Scotland. Meetings are scheduled in advance but may be changed by agreement. Fewer / additional meetings may be held by agreement.</p> <p>Work between meetings is progressed through electronic communication, meetings of groups progressing specific items, and by the Secretariat in consultation with the Chair.</p>		The Board will meet as required in each year to discuss matters relating to financial reporting as they arise.

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<b>13 Quorum</b>	<p>A quorum for meetings is 7 members.</p> <p>Non-quorate meetings may discuss and formally note matters for future report, but have no executive authority. Urgent decisions, at the Chair's discretion, should be dealt with by correspondence.</p> <p>Different arrangements apply to the issue by the Joint Committee of an invitation to comment on proposals for changes to the SORP and to the finalisation of the SORP, which require that at least 50% of members consent.</p>		
<b>14. Report on Activities</b>	<p>There is no requirement for any report to external stakeholders.</p>	<p>The body should report to the ASB, at least annually, the results of such a review. The report should confirm that the body continues to comply with this code of practice and state whether, in the light of the review, it proposes to revise any of the SORPs for which it is responsible.</p> <p>There is no requirement for any report to external stakeholders.</p>	<p>The Board will prepare an annual report of its activities, including its views on the changes made during the period to the accounting guidance, or, as appropriate, accounts directions, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, NI in respect of bodies listed above, and will send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, the National Assembly for Wales, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.</p> <p>The Treasury, the Scottish Ministers, the Department of Finance and Personnel, NI, and the Finance Division of the Welsh Assembly Government will formally lay the Board's report before the House of Commons, the Scottish</p>

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			Parliament, the Northern Ireland Assembly, and the National Assembly for Wales respectively.  <b><u>Proposed Change</u></b> <i>Include appropriate local authority references.</i>
15. IFRS cut-off date	<b><u>Proposed Change</u></b> <i>Include clear statement on Autumn cut-off date <u>before</u> start of reporting year for implementation of new IFRSs (if there is a conflict with the timetable set by the IASB in the standard itself) in order to ensure no unforeseen impact on Council Tax.</i>		<b><u>Proposed Change</u></b> <i>Clear statement on local government standard implementation date over-ride.  Consider statement on Board approach to influencing development of new IFRS.</i>

