

1 INTRODUCTION

1.1 Objective of the Code

1.1.1 The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a local authority, including group financial statements where a local authority has material interests in subsidiaries, associates or joint ventures.

1.1.2 The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:

- Statements of Accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003 and for Wales by the Accounts and Audit (Wales) Regulations 2005;
- the audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Audit Commission Act 1998 for England, and by sections 39 and 58 of the Public Audit (Wales) Act 2004 for Wales.

1.1.3 In Scotland, the Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003. These proper practices apply to:

- Statements of Accounts prepared under the statutory framework established by the Local Authority Accounts (Scotland) Regulations 1985;
- the audit of those accounts, undertaken in accordance with the statutory framework established by section 99 of the Local Government (Scotland) Act 1973.

1.1.4 In Northern Ireland, the statutory framework for the accounts and audit is established by Article 24 of the Local Government (Northern Ireland) Order 2005 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.

1.1.5 In the unusual event that other statutory provisions require departures from the Code, then those statutory provisions shall be followed. Regard will still need to be given, however, to the need for the Statement of Accounts to give a 'true and fair' view of the financial position and transactions of the authority, which may mean the inclusion of additional information in accordance with the provisions of the Code.

1.1.6 The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on the following hierarchy of standards:

- IFRS (including IAS and IFRIC and SIC interpretations) as adopted by the European Union (i.e. EU adopted IFRS);
- IPSAS;
- UK GAAP (FRS, SSAP and UITF Abstract)

In the unusual event that a local authority enters into a transaction, the accounting treatment and disclosure requirements of which are not covered by the Code, but which are covered by an extant IAS, IFRS, SIC Interpretation or IFRIC Interpretation, by an IPSAS or by UK GAAP, the requirements of the relevant IAS, IFRS, SIC Interpretation, IFRIC Interpretation, IPSAS or UK GAAP shall be followed.

- 1.1.7 The Code involves interpretations and adaptations of international accounting standards and other pronouncements by the International Accounting Standards Board (IASB). These will be clearly identified in the Code. In all other cases, the Code implements the requirements of the international accounting standards. Where users experience difficulties interpreting this Code, they shall refer back to the relevant international accounting standard or other pronouncement for further guidance. Where any interpretations and adaptations of international accounting standards contained in the Code are in line with the guidance contained in international public sector accounting standards, or in line with UK GAAP, authorities shall refer to those standards for further guidance.

1.2 Applicability of the Code

- 1.2.1 This Code has effect for financial years commencing on or after 1 April 2010.
- 1.2.2 In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003. All authorities to which section 21 applies that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998 or section 39 of the Public Audit (Wales) Act 2004, except larger parishes and larger community councils, therefore have a statutory duty to comply with Code requirements.
- 1.2.3 In practice this definition includes principal councils, police authorities, fire and rescue authorities, and the Greater London Authority and its functional bodies. More specialised bodies should check against the definitions to decide whether they are covered. It is expected that bodies covered by the Accounts and Audit Regulations requirements to prepare a Statement of Accounts but not by the definition of proper practices in section 21 of the Local Government Act 2003 will adopt the Code as a source of proper practices, unless adoption is ruled out by legislation or a more specialised accounting code applies to them.
- 1.2.4 Scottish local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Code is recognised as setting out proper accounting practices in this regard. Local authorities are defined as a council constituted under section 2 of the Local Government (Scotland) Act 1994, the Strathclyde Passenger Transport Authority, and those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (i.e. committees, joint committees and joint boards the members of which are appointed by local authorities, charities, etc; the trustees of which are local authorities or their members and transport partnerships created under the Transport (Scotland) Act 2005).
- 1.2.5 In Northern Ireland, district councils are required to prepare Statement of Accounts under Regulation 4 of the Local Government (Accounts and Audit)

Regulations (Northern Ireland) 2006 and the Code is part of the proper practices governing their preparation.

1.2.6 This edition of the Code is the first to implement International Financial Reporting Standards. As such there are a number of changes to accounting practice since the 2009 SORP. These changes are set out at the end of each section of the Code.

1.2.7 Proper practice, as defined by regulations, also includes the requirements of other Codes of Practice, such as the Best Value Accounting Code of Practice. In preparing their accounts, authorities shall comply with the requirements of these other Codes of Practice as well as the requirements of this Code.

1.3 The Context of the Code's Recommendations

1.3.1 The Code is supported by a number of detailed accounting recommendations which have evolved as best accounting practice over many years. The provisions of the Code are updated where professional or statutory developments make it appropriate. The primary sources are set out in Appendix x.

1.3.2 The Code sets out the accounting concepts and accounting principles which underpin the Statement of Accounts. The following points are intended to put some of those requirements in context:

- The overriding requirement of the Code remains that the Statement of Accounts gives a 'true and fair' view of the financial position and transactions of the authority. Where there are changes in accounting policies or where the requirements of the Code are not met, then full disclosure and, where relevant, quantification in the Statement of Accounts is required.
- The Code represents the minimum requirement for disclosure and presentation (subject to materiality) and is not intended to prejudice the provision of further information by authorities.

1.4 Accounting Standards

1.4.1 The Code is based on the approved accounting standards that form part of the standards hierarchy (see paragraph 1.1.6) and also reflects specific statutory accounting requirements. Compliance with the Code is therefore necessary (save in exceptional circumstances) in order that an authority's accounts give a 'true and fair' view of the financial position and financial performance of the authority.

1.4.2 The requirements of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board apply unless specifically interpreted or adapted by the Code.

1.5 Purpose of the Statement of Accounts

1.5.1 The Code has been prepared on the basis that the purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances. It should answer such questions as:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year-end?

1.5.2 It is important for compliance with the Code that two particular aspects are understood clearly. First, all Statements of Accounts should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published Statements of Accounts. It is important that the costs of individual services are defined by local authorities in accordance with the CIPFA Best Value Accounting Code of Practice (separate service expenditure analyses exist for England and Wales, Scotland, and Northern Ireland).

1.5.3 Secondly, interpretation and explanation of the accounts are considered to be extremely important. The Code requires that there should be an Explanatory Foreword to the Statement of Accounts. The Explanatory Foreword should explain the more significant features in the accounts. It should be based on the information contained in the Statement of Accounts and local authorities should ensure that it does not contain material inaccuracies or misleading statements in relation to the Statement of Accounts.

1.5.4 Wherever possible the Statement of Accounts and the supporting notes should be written in plain language and technical terms or jargon should be used only sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly in a glossary.

1.5.5 Where an authority also publishes a summarised or simplified version of its Statement of Accounts, it should contain a clear reference to the existence of the full Statement of Accounts and to its availability.

1.6 Publication

1.6.1 The Statement of Accounts should be prepared promptly by authorities in a form which fulfils the purpose outlined above in accordance with the statutory timetable and CIPFA's Standard of Professional Practice on Financial Reporting. The accounts must be prepared by 30 June. In England and Wales, each authority is required to prepare and approve its accounts by 30 June and to publish them by 30 September. In Northern Ireland, the requirement is to prepare and approve accounts by 30 June and to publish them by 31 October.

1.6.2 The publication of a Statement of Accounts is a statutory requirement in England and Wales. However, Statement of Accounts form part of reporting in its wider sense, and must, therefore, be considered in relation to annual reports. It is recommended that the Statement of Accounts should be included within the annual report. However, where this is not appropriate, the annual report should contain a fair summary of the Statement of Accounts, with a cross-reference to where and how the full Statement of Accounts may be obtained.

1.6.3 The Code states which accounts should be published as part of the Statement of Accounts, and the information to be included in each account. It also sets out

recommendations regarding the order in which the financial statements and notes to the accounts are presented. Within the general framework and requirements of the Code, the layout of accounts and terminology used are at the discretion of authorities.

- 1.6.4 The financial statements, statement of accounting policies and notes to the accounts should form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion. The statements should be published with an audit certificate and opinion in England, Wales and Northern Ireland and with an audit certificate in Scotland. If the published Statement of Accounts has not been audited, this should be stated clearly on the front of the document.