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Technical Accounting Alert

Frequency of Valuations for Property, Plant and Equipment

It has come to CIPFA's attention that there has been much debate about the requirements of the Code in relation to changes introduced to paragraph 4.1.2.35. CIPFA/LASAAC clearly stated in its Invitation to Comment on the 2013/14 Code:

"*There are currently no adaptations in relation to the frequency itself (although the Code states that valuations should be carried out at intervals of no more than five years) and therefore the Code requires that the provisions of IAS 16 [Property, Plant and Equipment] are followed even if they are not explicitly stated within the Code*."

The requirements of the Code have therefore not changed in relation to paragraph 4.1.2.35.

The most significant requirement in paragraph 4.1.2.35 is that:

"*Where assets are re-valued (ie the carrying amount is based on fair value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.*"

This paragraph follows the principle applicable to any other balance sheet transaction ie that the measurement for that balance sheet transaction should be materially accurate.

Neither the Code nor IAS 16 specifically stipulates that valuations are required every reporting period or on an annual basis; see also extract below for additional guidance from IAS 16 and the Code.

IAS 16 (paragraph 34) provides additional guidance on revaluation frequency:

"*Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years*."

The Code adds more context to the revaluation and what might represent a material difference for local authorities by stipulating that:

"Valuations shall be carried out at intervals of no more than five years. (Code, paragraph 4.1.2.35)"

However, both these extracts provide additional guidance on revaluations and are supplementary to the provisions extracted above from paragraph 4.1.2.35.

The requirements of the Code and IAS 16 are also intended to avoid selective revaluations. Paragraph 4.1.2.35 requires that where assets are revalued that a class of assets (the Code defines classes of assets in paragraph 4.1.2.2) may be revalued on a rolling basis provided that the class of assets is completed in a short period and provided the revaluations are kept up to date. The Code requires that assets must be revalued every five years as a minimum, but must be revalued more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value (Guidance Notes[1], Module 4, paragraph C48).

This is consistent with the guidance provided in the Guidance Notes since the introduction of IFRS. However, CIPFA would note that the reference to the use of indices in paragraph C49 of Module 4 of the Guidance Notes was intended to mean that indices might be used to support market based evidence that valuations are kept up-to-date rather than to be used to update the valuations. The use of indices is given very specific references in IAS 16 (see IAS 16 paragraph 35 a)) and should not be used to "smooth" valuation fluctuations. Indices should only be used by appropriate valuations experts, in accordance with their professional judgements, when determining the measurements of the item of property, plant and equipment. The reference to the use of indices will be removed from paragraph C49 in the 2014/15 Guidance Notes.

This calls into question what does "materially different" mean for local authorities. CIPFA cannot give explicit guidance on this issue as this will differ for each authority. However, paragraph 2.1.2.9 of the Code states that:

"… *information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority*."

In judging what is material for this transaction accounts preparers would need to consider how much different this measurement would need to be for users of the accounts to make to different decisions relating to the authority or come to different conclusions about the authority's standards of stewardship. More consideration on materiality is provided in the Guidance Notes paragraphs Module 2 paragraphs A36 to A43.

DISCLAIMER

Please note that the guidance offered by this Technical Alert should not be taken as an authoritative interpretation of the law and should not be considered as constituting a definition of proper accounting practice.

This Technical Alert is intended to assist practitioners with the application of the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). The Technical Alert is intended to be best practice, but is not prescriptive and does not have the formal status of the Code. All reasonable care is exercised in preparing the Alert. However, accounts preparers should always refer to the primary sources before relying on this advice and check any interpretation of published guidance with their own professional advisors.

[1] Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes for Practitioners 2013/14 Accounts