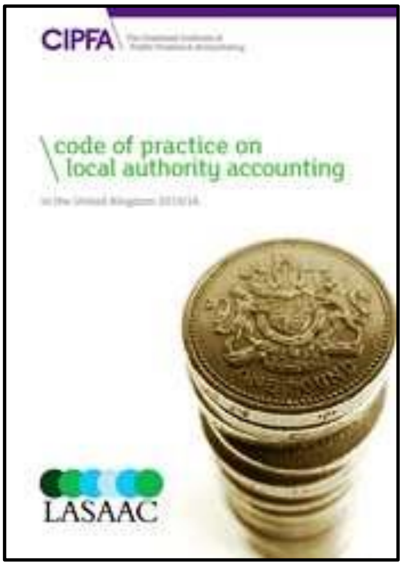
CIPFA The Chartered Institute of Public Finance & Accountancy

\code of practice on local authority accounting in the united kingdom

update to the 2015/16 code



This Update of the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) must be read in conjunction with the 2015/16 Code published by CIPFA in April 2015. The tracked changes to appropriate extracts of the 2015/16 Code include both new and amended paragraphs to form the Update to the 2015/16 Code.

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Foreword

This Code of Practice is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2015.

This publication is an Update to the edition of the 2015/16 Code published on 1 April 2015. This ~~edition of the~~ Update to the 2015/16 Code applies for accounting periods commencing on or after 1 April 2015. It needs to be considered in addition to the 2015/16 Code. The 2015/16 Code ~~It~~ supersedes the edition published in April 2014 (the 2014/15 Code).

The key accounting changes in this edition of the Code (and Update to the 2015/16 Code) include:

a) Amendments to chapter one (Introduction), chapter three (Financial Statements), chapter six (Employee Benefits) and Appendix B (Sources and Legislation) as a result of the Local Authority Accounts (Scotland) Regulations 2014.

b) Amendments to chapter one, chapter three and Appendix B as a result of the Accounts and Audit (Wales) Regulations 2014.

c) Amendments to chapter one to underline CIPFA/LASAAC's view of the importance of the consideration of materiality when preparing disclosures for local authority financial statements.

d) The introduction of a new section on fair value measurement in chapter two (Concepts and Principles) to reflect the adoption of IFRS 13 *Fair Value Measurement*. The 2015/16 Code also includes a number of consequential amendments following the adoption of the standard. The most substantial of these are the amendments to:

   i) section 2.1 (Concepts) – the table in this section has been updated to summarise the application of the measurement of fair value or current value measurement bases to the transactions of local authorities

ii) section 4.1 (Property, Plant and Equipment) introduces the new definition and disclosure requirements for fair value measurement to surplus assets (see f) below for further consequential amendments to section 4.1 of the Code to property, plant and equipment)

iii) the definitions of fair value in sections 2.7 (Revenue Recognition), 4.4 (Investment Property), 4.9 (Non-current Assets Held for Sale and Discontinued Operations), 5.1 (Inventories), 5.3 (Debtors), 6.1 (Employee Benefits – Definitions) and 8.1 (Creditors) of the Code

iv) a number of the definitions and disclosure requirements in section 4.7 (Impairment of Assets)

v) the definitions of fair value and the disclosure requirements of chapter seven (Financial Instruments).

e) Clarification in section 3.4 (Presentation of Financial Statements) of the reporting requirements for disclosures that support the Movement in Reserves Statement.

f) Clarification in section 4.1 (Property, Plant and Equipment) of the current adaptation of the measurement requirements for property, plant and equipment following the adoption of IFRS 13 and the introduction of the concept of current value. Current value in section 4.1 includes four measurement bases. Note that the new definition of current value means that the measurement requirements for property, plant and equipment providing service potential for an authority have not changed from the 2014/15 Code. The 2015/16 Code has changed the measurement requirements for assets classified as surplus assets. These assets are now to be measured at fair value in accordance with the definition in IFRS 13 and without any adaptations to that definition.

g) Introduction in section 4.1 of an interpretation to clarify what a short period means for the measurement of a class of assets for local authorities.

h) Following adoption of the amendments in the Update to the 2014/15 Code, minor clarifications of the reporting requirements in Appendix E (Accounting for Schools in Local Authorities in England and Wales).

i) Confirmation in section 4.10 (Heritage Assets) that the measurement of heritage assets shall continue to be made by any method that is appropriate and relevant and rationalises the disclosures of heritage assets following the introduction of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

j) Amendments as an Update to the 2015/16 Code to chapter one (Introduction), chapter three (Financial Statements), chapter four (Non-Current Assets) and Appendix B (Sources and Legislation) as a result of the Accounts and Audit Regulations 2015 for English authorities and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

k) Amendments as an Update to the 2015/16 Code to section 3.1 (Narrative Report) to reflect the new requirements in the Accounts and Audit Regulations 2015 for English authorities for a narrative statement. The section has also been updated to reflect the provisions of Statutory Guidance issued by the Scottish Government on the Management Commentary.

l) Amendments as an Update to the 2015/16 Code that confirm the decision to measure the Highways Network Asset at Depreciated Replacement Cost in accordance with the requirements in the 2016/17 Code. They include confirmation of the reporting requirements for that change in the 2015/16 financial statements and the transitional reporting requirements for the 2016/17 financial statements (though for the full reporting requirements direct reference will be needed to the 2016/17 Code).

Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

~~The 2015/16 Code does not include the requirements of the Local Audit and Accountability Act 2014 and the Accounts and Audit (England) Regulations 2015 or the requirements of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.~~

In England and Wales, the ~~local authority~~ Code constitutes a ‘proper accounting practice’ under the terms of section 21(2) of the Local Government Act 2003. In Scotland, the ~~local authority~~ Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003. In Northern Ireland, the status and authority of the ~~local authority~~ Code derives from regulation ~~3(1)~~ 2 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 ~~of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006~~ and through the relevant accounts direction issued by the Department of the Environment (Northern Ireland) ~~of that Act~~.

CHAPTER ONE

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, financial performance and cash flows 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 ~~(England)~~ Regulations ~~2011~~ 2015 and for Wales by the Accounts and Audit (Wales) Regulations 2014
- the audit of those accounts undertaken in accordance with the statutory framework established by sections 3 and 20 ~~5~~ of the Local Audit and Accountability Act 2014 ~~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:

- Annual Accounts prepared under the statutory framework established by the Local Authority Accounts (Scotland) Regulations 2014
- 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~~2015.

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 (Annual Accounts in

Scotland[1]) to give a 'true and fair' view of the financial position, financial performance and cash flows 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 European Union adopted IFRS. On the few occasions where the CIPFA/LASAAC Local Authority Accounting Code Board considers it appropriate to adapt IFRSs, the accounting treatment is based on the approach in the Memorandum of Understanding between the Relevant Authorities.

1.1.7 The Code involves adaptations and interpretations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations and interpretations as are necessary for the local government context. These will be clearly identified in each chapter or section of the Code. In all other cases, the Code implements the requirements of the International Financial Reporting Standards. Where users experience difficulties interpreting this Code, they shall refer back to the relevant International Financial Reporting Standard or other pronouncement for further guidance. Where adaptations and interpretations of International Financial Reporting Standards contained in the Code are in line with the guidance contained in International Public Sector Accounting Standards or other reporting standards relevant to the public sector, authorities shall refer to those standards for further guidance.

1.1.8 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 other reporting standards relevant to the public sector, the requirements of the relevant IAS, IFRS, SIC Interpretation, IFRIC Interpretation, IPSAS or other GAAP shall be followed.

1.2 APPLICABILITY OF THE CODE

1.2.1 This Code has effect for financial years commencing on or after 1 April 2015.

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. However, the Code does not apply

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1 References to Statement of Accounts in this Code mean Annual Accounts for Scottish authorities following the specifications of the Local Authority Accounts (Scotland) Regulations 2014. This chapter of the Code for the avoidance of doubt uses the term Annual Accounts for Scottish authorities.

to any parish or community councils, even those required to prepare Statements of Accounts. Alternative guidance is applicable to these councils. All authorities to which section 21 applies that are required to prepare a Statement of Accounts ~~by~~ in compliance with the Accounts and Audit Regulations made under section ~~27~~ 32 ~~of~~ of the Local Audit and Accountability Act 2014 ~~the Audit Commission Act 1998~~ or section 39 of the Public Audit (Wales) Act 2004, except parishes and community councils, therefore have a statutory duty to comply with Code requirements. In practice this definition includes principal councils, police and crime commissioners, fire and rescue authorities, and the Greater London Authority and its functional bodies.

1.2.3 Section 3 of the Local Audit and Accountability Act 2014 requires a relevant authority (defined in Schedule 2 of the Act (other than a health service body)) to prepare a statement of accounts. It is expected that bodies covered by the Accounts and Audit Regulations 2015 or the Accounts and Audit (Wales) Regulations 2014 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. Specialised bodies should check against the definitions to determine whether they are covered.

~~In practice this definition includes principal councils, police and crime commissioners, fire and rescue authorities, and the Greater London Authority and its functional bodies.~~

~~A transitional provision order[2] confirmed that sections 21 and 22 of the Local Government Act 2003 apply to chief constables as they apply to a local authority. 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 Section 141 of the Anti-social Behaviour, Crime and Policing Act 2014 stipulates that a number of sections of Part 1 Capital Finance etc and Accounts of the Local Government Act 2003 (including Sections 21 and 22) apply to chief constables as they apply to a local authority. ~~The Accounts and Audit (England) Regulations 2011 introduced a new threshold for smaller relevant bodies below which a Statement of Accounts is not required to be prepared. However, these bodies are permitted by legislation to follow the requirements for larger relevant bodies in relation to the Statement of Accounts which might mean the requirements of the~~

[2] ~~See SI 2013/2319: The Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013.~~

~~Code. In addition the regulations require passenger transport executives to prepare a Statement of Accounts as if proper practices in relation to accounts were, as appropriate, applicable to an executive. They also require that internal drainage boards charge a revenue account with an amount equal to the payments and contributions statutorily payable in a year under an arrangement accounted for as a defined benefit pension plan or as other long-term employee benefits (as defined in accordance with proper practices). Passenger transport executives and internal drainage boards should apply the Code in accordance with the requirements of the regulations.~~

1.2.5 The Local Audit and Accountability Act 2014 confirmed the threshold for smaller relevant authorities in England below which a Statement of Accounts is not required to be prepared. However, these authorities are permitted by legislation to follow the requirements for larger relevant authorities in relation to the Statement of Accounts, which might mean the requirements of the Code.

1.2.~~5~~6 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 Partnership for Transport, and those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (ie committees, joint committees and joint boards, the members of which are appointed by local authorities, charities/trust funds, etc; the trustees of which are local authorities or their members and transport partnerships created under the Transport (Scotland) Act 2005). Where a section 106 body complies with the accounting requirements of the Charities and Trustee Investment (Scotland) Act 2005 and associated regulations it should follow the Charities SORP, or other financial reporting requirements as specified by the Office of the Scottish Charity Regulator (OSCR). Where a Common Good Fund (or other trust fund) is a registered charity, it should also follow the financial reporting requirements of the OSCR. Where the fund is not a registered charity, it should follow the requirements of this Code.

1.2.~~6~~7 In Northern Ireland, district councils are required to prepare Statements of Accounts under regulation ~~4~~ 7 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~ 2015 and the Code is part of the proper practices governing their preparation.

1.2.~~7~~8 This is the sixth edition of the Code to be prepared under International Financial Reporting Standards. This version of the Code reflects a number of changes to accounting practice since the 2014/15 Code. These changes are set out at the end of each section.

1.2.~~8~~9 Proper practice, as defined by regulations, also includes the requirements of other codes of practice, such as the *Service Reporting Code of Practice* (SeRCOP). 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 B.

1.3.2 The Code sets out the accounting concepts and accounting principles which underpin the Statement of Accounts (Annual Accounts in Scotland). 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 (Annual Accounts in Scotland) gives a 'true and fair' view of the financial position, financial performance and cash flows 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 are 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 approved accounting standards 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, financial performance and cash flows of the authority.

1.4.2 The requirements of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board in effect for accounting periods commencing on or before 1 January 2015 (as adopted by the EU) apply unless specifically adapted by the Code.

1.5 MATERIALITY

1.5.1 The Code provides a definition of materiality in paragraph 2.1.2.9 which is applied to information and disclosures in local authority financial statements. This Code only requires local authority financial statements to disclose information which is material.[3] CIPFA/LASAAC is of the view that local authorities should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements.

1.6 PURPOSE OF THE STATEMENT OF ACCOUNTS (ANNUAL ACCOUNTS IN SCOTLAND)

1.6.1 The Code has been prepared on the basis that the purpose of a local authority's published Statement of Accounts (Annual Accounts in Scotland) 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?

1.6.2 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 *Service Reporting Code of Practice* (separate service expenditure analyses exist for England and Wales, Scotland, and Northern Ireland).

1.6.3 Secondly, interpretation and explanation of the accounts are considered to be extremely important. The Code requires that there should be a~~n~~ ~~Explanatory Foreword~~Narrative Report to accompany the~~ to the~~ financial statements/~~-~~Statement of Accounts. The ~~Explanatory Foreword~~Narrative Report should explain the more significant features of the accounts (see Section 3.1 of the Code for further details of the requirements to produce a Narrative Report). 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.

1.6.4 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

3 This position is based on paragraph 3.4.2.26 from the Code's adoption of IAS 1 *Presentation of Financial Statements* which states that *'A local authority need not provide a specific disclosure required by the Code if the information is not material.'*

sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly in a glossary.

1.6.5 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.

1.6.6 Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts. The Code aims to narrow the areas of difference and variety in accounting treatment with the rest of the public sector, facilitating consolidation. As part of the consolidation process, additional information to that disclosed in the Statement of Accounts may need to be submitted to government; such information is expected to be in line with the requirements of the Code.

1.7 PUBLICATION

1.7.1 The Statement of Accounts (Annual Accounts in Scotland) 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 publication requirements across the four jurisdictions are as follows:

- In England, each authority is required to prepare its accounts for certification by the responsible financial officer prior to the commencement of the period for the exercise of public rights (which includes the first 10 working days in July) and to approve and publish them by 30 September, or as soon as reasonably practicable after the receipt of the auditors final findings (if later).
- In Northern Ireland, the requirement is to prepare and approve accounts by 30 June and to publish them by 30 September.
- In Scotland, the proper officer is required to submit the unaudited accounts to the appointed auditor by 30 June. The local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor by 31 August. The Local Authority Accounts (Scotland) Regulations 2014 require the local authority to aim to approve the Annual Accounts for signature by 30 September and to publish them by 31 October.
- In Wales, the requirement is to prepare and approve accounts by 30 June and to publish them by 30 September.

~~The accounts must be prepared by 30 June. In England and Wales, each authority is required to prepare its accounts by 30 June and to approve and publish them by 30 September.~~

~~In Scotland, the proper officer is required to submit the unaudited accounts to the appointed auditor by 30 June. The local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the~~

~~unaudited Annual Accounts as submitted to the auditor by 31 August. The Local Authority Accounts (Scotland) Regulations 2014 require the local authority to aim to approve the Annual Accounts for signature by 30 September and to publish them by 31 October. In Northern Ireland, the requirement is to prepare and approve accounts by 30 June and to publish them by 31 October.~~

1.7.2 The publication of a Statement of Accounts (Annual Accounts in Scotland) is a statutory requirement. However, Statements of Accounts/Annual 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. In Scotland, the financial statements are required to be included in the Annual Accounts.

1.7.3 The Code states which financial statements should be published as part of the Statement of Accounts (Annual Accounts in Scotland), and the information to be included in each statement. 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 financial statements and terminology used are at the discretion of authorities.

1.7.4 The complete set of financial statements as defined in paragraph 3.4.2.17, and including the summary of significant accounting policies and notes to the accounts, should form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion in England, Northern Ireland and Wales. These should be included in the Annual Accounts in Scotland. 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.

CHAPTER THREE
Financial statements

3.1 ~~EXPLANATORY FOREWORD~~NARRATIVE REPORT

3.1.1 Introduction

3.1.1.1 A local authority in England, Northern Ireland and Wales shall publish a~~n~~ ~~Explanatory Foreword~~Narrative Report with the financial statements~~.~~ (for the purposes of this section of the Code the "Narrative Report" is deemed to have the same meaning as "narrative statement" in the Accounts and Audit Regulations 2015 for local authorities in England).

3.1.1.2 The purpose of the ~~foreword~~ Narrative Report is to offer interested parties an ~~easily understandable~~ effective guide to the most significant matters reported in the accounts. The Narrative Report should be fair, balanced and understandable for the users of the financial statements.

3.1.1.3 Local authorities are encouraged to prepare the ~~Explanatory Foreword~~Narrative Report taking into consideration the provisions of the 2015 - 2016 Government's *Financial Reporting Manual* (FReM), paragraphs 5.2.1 to 5.2.10, where these paragraphs disclose information relevant to local authorities. Authorities should note that, unlike the FReM, the Code does not require local authorities to consider the requirements for sustainability reporting; but neither does the Code prevent an authority including such information within its ~~Explanatory Foreword~~Narrative Report. Note that CIPFA/LASAAC considers this encouragement approach to be an interim measure until the CIPFA Integrated Reporting: Public Sector Network has finalised its recommendations on integrated reporting. It is anticipated that these recommendations will be available in 2016 and therefore should be able to be included in the 2017/18 Code. Authorities should also note that the specifications of paragraph 3.1.5.3 set out the reporting principles that CIPFA/LASAAC considers will enable local authorities in England to meet the requirements of the Accounts and Audit Regulations 2015 ie to "include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year"[4].

3.1.1.~~2~~4 The ~~Explanatory Foreword~~Narrative Report shall provide an explanation of the

[4] The Accounts and Audit Regulations 2015, Regulation 8 (2).

authority's financial position, and assist in the interpretation of the financial statements, including the Group Accounts. It shall also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. Content and style are left to local judgement.

~~3.1.1.3 Local authorities in Scotland are required by the Local Authority Accounts (Scotland) Regulations 2014 to provide a management commentary in addition to the Annual Accounts. Provided that the management commentary includes an easily understandable guide to the most significant matters in the accounts and assists with the interpretation of the accounts in accordance with the requirements of this section of the Code, local authorities need not provide an Explanatory Foreword in addition to a management commentary.~~

Management Commentary – Scottish Local Authorities

3.1.1.5 Statutory guidance on the Management Commentary in Scottish Government Circular 5/2015 "sets aside" the Code requirement for an Explanatory Foreword. This will mean the requirements of this section of the Code.

3.1.2 Accounting Requirements

3.1.2.1 Information provided in the ~~Explanatory Foreword~~Narrative Report shall reflect the accounting requirements of the Code.

3.1.3 Statutory Accounting Requirements

3.1.3.1 There are no statutory accounting requirements in respect of the ~~Explanatory Foreword~~Narrative Report.

3.1.4 Disclosure Requirements

3.1.4.1 It is recommended that the ~~foreword~~ Narrative Report includes the following items that are likely to be significant to the understanding of the financial statements (these recommended topics are not intended to restrict the content of the ~~foreword~~Narrative Report):

a) An explanation of which statements follow, their purpose and the relationship between them.

b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.

c) A note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.

d) A note explaining the significance of any pensions liability or asset disclosed.

e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.

f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.

g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services and the impact of any reduction in services.

h) A note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major non-current asset acquisitions and disposals.

i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.

j) Details of significant provisions or contingencies and material write-offs. This disclosure should focus on new items and any significant changes to existing items.

k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).

l) An explanation of the impact of the current economic climate on the authority and the services it provides.

3.1.5 Statutory Reporting and Disclosure Requirements

3.1.5.1 There are no statutory disclosure requirements in relation to the ~~Explanatory Foreword~~Narrative Report.

Narrative Report – English Local Authorities

3.1.5.2 Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative statement with the Statement of Accounts. Such a narrative statement shall be provided in accordance with this section of the Code.

3.1.5.3 As a part of the requirement to provide a narrative statement, regulation 8(2) of the Accounts and Audit Regulations 2015 stipulates that a local authority must provide information on its "financial performance and economy, efficiency and effectiveness in its use of resources over the financial year". CIPFA/LASAAC considers that to meet the requirement of Regulation 8 (2) local authorities in

England should follow the principles in Financial Reporting Council (FRC) *Guidance on the Strategic Report*[5] (FRC Guidance) in relation to business performance. Therefore the narrative statement should provide an analysis of:

a) the development and the performance of the authority in that financial year and its position at the end of the year (see FRC guidance paragraph 7.38); the narrative report in that context should:

   i) complement the financial statements, where relevant, providing additional explanations of amounts recognised in the financial statements and the conditions and events that shaped the information in them,

   ii) be analysed in the context of the authority's strategic/corporate reports for that year; any segmental analysis should be consistent with the authority's segmental analysis provided in accordance with this section and section 3.4 of this Code,

   iii) make reference to cashflows during the year and the factors that may affect future cash flows, and

   iv) include information on an authority's key strengths and resources (this might include consideration of an authority's employees, capital expenditure and commitments, key services including commentary on significant matters covered in the budget report, consideration of any significant assets or liabilities earned or incurred, corporate reputation and relevant information on service recipients). This might also necessitate cross reference to the items included in paragraph 3.1.4.1.

b) the financial and non-financial performance indicators as relevant to the performance of the authority (see FRC Guidance, paragraph 7.43); thus in producing a narrative commentary on the use of resources a local authority should consider the following:

   i) the performance indicators used should include those that the local authority judges as central in assessing progress against its strategic objectives, or monitoring its risks or otherwise used to measure performance in the year,

   ii) non-financial indicators can be indicators of future financial prospects and progress in managing risks and opportunities,

   iii) performance indicators should, where possible, represent generally accepted measures of performance for local authorities whether on a corporate, financial or service basis,

   iv) comparatives should be included and any significant changes from year to year should be explained, and

   v) if necessary, appropriate description of the performance indicators should

[5] Financial Reporting Council, June 2014.

be provided.

In preparing this section of the narrative report local authorities should also have regard for the communication principles and the approach to materiality set out in the FRC Guidance.

Narrative Report – Welsh and Northern Irish Local Authorities

3.1.5.4 There are no statutory reporting requirements in relation to the Narrative Report for Welsh and Northern Irish Local Authorities.

Management Commentary – Scottish Local Authorities

3.1.5.5 The statutory reporting requirements for a Management Commentary are included in the Local Authority Accounts (Scotland) Regulations 2014. Scottish Government Finance Circular 5/2015 provides Statutory Guidance on the Management Commentary.

3.1.6 Changes since the 2014/15 Code

3.1.6.1 The 2015/16 Code Update (and the 2016/17 Code) ~~This section of the Code~~ has been amended to reflect the requirement for local authorities in England to provide a narrative statement with their published statement of accounts in accordance with the Accounts and Audit Regulations 2015. It has also been updated to reflect the provisions of Statutory Guidance issued by the Scottish Government on the Management Commentary.

3.1.6.2 This section of the Code now uses the term Narrative Report rather than Explanatory Foreword. It also clarifies that the Narrative Report should be fair, balanced and understandable.

~~for Scottish local authorities to provide a management commentary with the Annual Accounts~~.

3.2 STATEMENT OF RESPONSIBILITIES

…

3.2.4 Disclosure Requirements

3.2.4.1 A local authority shall set out the responsibilities of the authority and the chief financial officer in respect of the Statement of Accounts. The following wording is recommended but not mandatory:

…

Northern Ireland

The Council's Responsibilities

Under section 1 of the Local Government Finance Act (Northern Ireland) 2011 the council shall make arrangements for the proper administration of its financial affairs. Under this section the council is required to designate an officer of the council as its chief financial officer. Arrangements for the proper administration of its financial affairs shall be carried out under the supervision of its chief financial officer.

The council is required to approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

Under Regulation ~~4~~ 8 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~2015 the chief financial officer is responsible for the preparation of the council's Statement of Accounts in the form directed by the Department of the Environment (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this Statement of Accounts, the chief financial officer is required to:

- observe the Accounts Direction issued by the Department of the Environment (NI) including compliance with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The chief financial officer is also required to:

- keep proper accounting records which are up to date, and
- take reasonable steps for the prevention and detection of fraud and other

irregularities.

The chief financial officer should sign and date the Statement of Accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

3.2.5 Statutory Disclosure Requirements

3.2.5.1 There are no statutory disclosure requirements in relation to the Statement of Responsibilities.

3.2.6 Changes since the 2014/15Code

3.2.6.1 The 2015/16 Code Update (and the 2016/17 Code) ~~This section of the Code~~ has been amended to reflect the requirements of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015~~The Statement of Responsibilities section of the 2015/16 Code has been updated to reflect the changes as a result of the Local Authority Accounts (Scotland) Regulations 2014~~.

3.4 PRESENTATION OF FINANCIAL STATEMENTS

...

3.4.4 Disclosure Requirements

3.4.4.1 Authorities shall disclose the information in the financial statements as required by this section. Having regard to paragraph 3.4.2.26 of this section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the notes as set out in the other sections of the Code in addition to the following:

1) The nature of any acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.

2) The nature, turnover, and surpluses/deficits of any significant trading operation and for Scottish local authorities the cumulative surplus or deficit for the current year and two preceding financial years in accordance with the requirements of the Local Government in Scotland Act 2003.

3) The nature and amount of any significant agency income and expenditure.

4) Sufficient information on any partnership schemes under s75 of the National Health Service Act 2006, under the Community Care and Health (Scotland) Act 2002 and under s33 of the National Health Service (Wales) Act 2006 to allow for the understanding of the authority's financial affairs. As a minimum this includes the purpose of the partnership, the identities of partner bodies, the gross income and expenditure of the partnership and the authority's contribution.

5) The totals of members' allowances (and expenses) paid in the year. In Scotland all elements of members remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses.

6) ~~a) Number of employees and police officers whose remuneration in the year was~~
~~greater or equal to £50,000, grouped in rising bands of £5,000, and/or other~~
~~disclosures specified in regulations or statutory guidance (Northern Ireland).~~

~~b)~~ Number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. Authorities shall also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations). Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs (England, Wales, Scotland and Northern Ireland). Scottish local authorities are required to include the disclosure of exit packages in the remuneration report.

7) The following amounts for the year:

   a) Fees payable to auditors appointed ~~by the Audit Commission~~under the Local Audit and Accountability Act 2014 ~~or the Auditor General for Wales~~ with regard to external audit services carried out by the appointed auditor under the ~~Audit Commission's~~ *Code of Audit Practice* prepared by the Comptroller and Auditor General ~~or Auditor General for Wales' *Code of Audit and Inspection Practice*~~ in accordance with ~~s5~~ s19 of the ~~Audit Commission Act 1998~~ Local Audit and Accountability Act 2014~~or s16 of the Public Audit (Wales) Act 2004~~.

   b) Fees payable to the Auditor General for Wales with regard to external audit services carried out under the *Code of Audit Practice* prepared by the Auditor General for Wales.

   ~~b~~c) Fees payable to ~~auditors appointed by the Audit Commission or~~ the Auditor General for Wales in respect of statutory inspection ~~under s10 of the Local Government Act 1999~~.

   ~~c~~d) Fees payable to ~~auditors appointed by the Audit Commission or~~ the Auditor General for Wales for the certification of grant claims and returns ~~by the appointed auditor under s28 of the Audit Commission Act 1998 or s2 of the Public Audit (Wales) Act 2004~~.

   ~~d~~e) Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the *Code of Audit Practice*.

   ~~e~~f) In Northern Ireland, the amount payable to the Comptroller and Auditor General for Northern Ireland in respect of external audit services.

   ~~f~~g) Fees payable in respect of any other services provided by the appointed auditor over and above the duties described in notes 7 a) to ~~e~~f) above.

8) In Wales, the following information is also to be disclosed:

   a) The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year.

   b) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

   c) The name of each authority which made a significant precept or demand on the account and the amount included for each authority.

9) In Northern Ireland, disclosure of details of the rates receivable by the authority (ie rate in the pound for domestic and non-domestic properties).

10) A breakdown of the movement of the amounts shown in the Movement in Reserves Statement that are adjustments between accounting basis and funding basis under regulations to be debited or credited to the General Fund and Housing Revenue Account for the year and the transfers to/from reserves.

11) Details of the nature and amount of trust funds where the authority acts as the sole trustee. For other trust funds and other third party funds administered by the authority, a statement providing an indication of the overall nature and amounts administered by the authority. Where land or non-financial assets are managed, occupied or held by the local authority which are impressed with charitable trusts, the nature of those holdings.

Cash Flow Statement

12) An analysis of the components of cash and cash equivalents.

3.4.5 Statutory Disclosure Requirements

3.4.5.1 There are no statutory disclosure requirements in relation to the presentation of financial statements. Authorities shall disclose the statutory notes as set out in the other sections of the Code in addition to the following:

1) The following disclosures on employee remuneration in accordance with the Accounts and Audit Regulations 2015[6] for English authorities and the Accounts and Audit (Wales) Regulations 2014[7]

a) Number of employees and senior police officers (all police officers in Wales) (except those included in b) below) whose remuneration in the year was greater or equal to £50,000, grouped in rising bands of £5,000 (England and Wales), and

b) An analysis by job title of the remuneration and employer's pension contributions (as defined by the regulations referred to in 1) above) in respect of senior employees and relevant police officers whose salary is £50,000 or more per year (or by name and job title where the salary is £150,000 or more per year) (England and Wales).

c) In Wales, the reference to '£50,000' in a) and b) above shall be read as '£60,000'.

d) In Wales, the remuneration ratio as required by the Accounts and Audit (Wales) Regulations 2014 (see Regulation 9(2)).

2) A brief explanation of the nature of any scheme under the Transport Act 2000 or the Transport (Scotland) Act 2001, including the gross income and expenditure of the scheme, and the net proceeds of the scheme (including for

[6] In accordance with Regulation 7 (3) and Schedule 1 of the Regulations.

[7] In accordance with Regulation 9 of the Regulations.

joint schemes the apportionment of such proceeds).

3) A disclosure that demonstrates whether the Dedicated Schools Grant (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards Framework Act 1998 (England).

Remuneration report (Northern Ireland)

3.4.5.2 Local authorities in Northern Ireland shall produce the statutory remuneration report required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015[8].

Remuneration report (Scotland)

3.4.5.~~2~~3 Local authorities in Scotland shall produce the statutory remuneration report in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200)[9] and the guidance issued by the Scottish Government (Scottish Government Finance Circulars 8/2011 and 7/2014).

3.4.6 Changes since the 2014/15 Code

3.4.6.1 The 2015/16 Code Update (and the 2016/17 Code) has been amended to reflect the changes to disclosures on fees payable to auditors as a consequence of the Local Audit and Accountability Act 2014, the reporting requirements of the Accounts and Audit (England) Regulations 2015 ~~The 2015/16 Code includes amendments to the Code's provisions on the presentation of financial statements~~ and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requirement for local authorities in Northern Ireland to produce a statutory remuneration report.

[8] In accordance with Regulation 7 of the Regulations.

[9] In accordance with Regulation 8 of the Regulations.

3.7 STATEMENTS REPORTING REVIEWS OF INTERNAL CONTROLS ~~OR INTERNAL FINANCIAL CONTROLS~~

3.7.1 Introduction

3.7.1.1 Regulation 6(1)(a)~~4(2)~~ of the Accounts and Audit ~~(England)~~ Regulations ~~2011~~2015, ~~Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014,~~ Regulation ~~2A~~ 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~ 2015, ~~and~~ Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England) (as a part of the Annual Accounts (Scotland)). Regulation 6(1)(b) ~~4(3)~~ of the Accounts and Audit ~~(England)~~ Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 ~~2011~~ and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

3.7.2 Accounting Requirements

3.7.2.1 The review of internal controls ~~or internal financial controls~~ provides assurance that the Statement of Accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

3.7.3 Statutory Accounting Requirements

3.7.3.1 Authorities ~~(except in Scotland)~~ are required to undertake and report on a review of internal controls.

…

3.7.6 Changes since the 2014/15 Code

3.7.6.1 The 2015/16 Code Update (and the 2016/17 Code) ~~The 2015/16Code~~contains relevant updates to the section, Statements Reporting Reviews of Internal Controls for the Accounts and Audit Regulations 2015 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

3.8 EVENTS AFTER THE REPORTING PERIOD

3.8.1 Introduction

3.8.1.1 Authorities shall account for events after the reporting period in accordance with IAS 10 *Events after the Reporting Period*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 14 *Events after the Reporting Date* is based on IAS 10, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

Adaptation for the public sector context

3.8.1.2 The date the financial statements are authorised for issue is defined in the Code, based on legislative requirements.

3.8.1.3 Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

3.8.2 Accounting Requirements

Definitions

3.8.2.1 **Events after the reporting period** are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Authorised for issue

3.8.2.2 The financial statements of an authority are authorised for issue in accordance with the relevant legislation:

- the Accounts and Audit ~~(England)~~ Regulations ~~2011~~ 2015
- the Accounts and Audit (Wales) Regulations 2014
- the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~2015
- the Local Authority Accounts (Scotland) Regulations 2014.

3.8.2.3 Regulations in England require authorities to prepare a Statement of Accounts prior to the commencement of the period for exercise of public rights. Regulations require that this period includes the first 10 working days of July.

3.8.2.~~3~~4 Regulations in ~~England, Wales and~~ Northern Ireland and Wales require authorities to prepare a Statement of Accounts before 30 June following the reporting date.

3.8.2.5 In Scotland, the proper officer is required to submit the unaudited accounts to the appointed auditor by 30 June. The local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor by 31 August.

3.8.2.6 The responsible financial officer (proper officer in Scotland/chief financial officer in Northern Ireland) shall certify that the accounts give a true and fair view of the authority's financial position and financial performance. The Statement of Accounts shall reflect events after the reporting period up to the date the accounts were certified by the responsible financial officer, proper officer or chief financial officer.

3.8.2.7 In England, regulations require the Statement of Accounts to be published by 30 September[10] to be approved by a committee or local government body and signed by the chair of the relevant approving committee or body.

3.8.2.48 In Northern Ireland, regulations require an authority to publish its audited Statement of Accounts by ~~31~~ 30 ~~October~~ September following the reporting period. ~~Where the audit has not been completed by this date, the authority shall publish its unaudited Statement of Accounts by this date and its audited Statement of Accounts as soon as practicable thereafter.~~

3.8.2.9 Regulations in Scotland require the local authority to aim to approve the Annual Accounts for signature no later than 30 September and to publish them no later than 31 October.

3.8.2.10 In ~~England and~~ Wales, regulations require the Statement of Accounts published by 30 September (and ~~in Wales~~ any subsequent Statement of Accounts issued following the conclusion of the audit) to be approved by a committee or local government body and signed by the chair of the relevant approving body. ~~Where an authority is unable to publish its audited financial statements on or before the statutory publication deadlines, the authorised for issue date is the date that the Statement of Accounts on which the auditors are to give their opinion is certified by the responsible financial officer.~~

…

3.8.6 Changes since the 2014/15 Code

3.8.6.1 The 2015/16 Code Update (and the 2016/17 Code) ~~There 2015/16Code~~ has been updated to reflect the requirements of the Accounts and Audit Regulations 2015 for English authorities and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.~~the Local Authority Accounts (Scotland) Regulations 2014~~

[10] Or as soon a reasonably practicable after the receipt of the auditors final findings (if later).

~~for events after the reporting period.~~

CHAPTER FOUR
Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.3.5 **England:** Depreciation is not a proper charge to the General Fund. However, for HRA non-dwellings, depreciation charged to the Surplus or Deficit on the Provision of Services in the Housing Revenue Account in England shall be charged in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*.

4.1.3.6 To ensure compliance with the Accounts and Audit Regulations and *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* requirements for the Major Repairs Reserve, depreciation for HRA dwellings charged to the Housing Revenue Account is subject to statutory provisions designed to specify the impact on the HRA (see part 2 of Appendix B for the legislative basis). The following entries are required or permitted in respect of the Major Repairs Reserve:

- The Major Repairs Reserve shall be credited, and Housing Revenue Account balances debited, with an amount equal to the depreciation charged to the HRA in accordance with this Code. This transfer is required to meet the requirements of the Accounts and Audit ~~(England)~~ Regulations ~~2011~~ 2015 (Regulation 7(5)(a)). In order to neutralise the impact on the HRA of this entry, a corresponding transfer is also required where Housing Revenue Account balances are credited and the Capital Adjustment Account is debited. Both these transfers shall be reported in the Movement in Reserves Statement.
- Where depreciation charges for HRA dwellings are greater than the notional Major Repairs Allowance (MRA), an amount equal to the difference is permitted to be transferred to the Housing Revenue Account from the Major Repairs Reserve and reported in the Movement in Reserves Statement. (Note that this transfer is permitted on a transitional basis as specified by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012.*)
- A debit to the HRA equal to the amount that has been credited to the HRA for decent homes backlog funding and a corresponding credit to the Major Repairs Reserve in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*.
- Where an authority funds capital expenditure on dwellings from the Major Repairs Reserve, this shall be accounted for by debiting the Major Repairs

Reserve and crediting the Capital Adjustment Account, this transfer to be reported in the Movement in Reserves Statement.

- Where repayments of principal of any amounts borrowed, or repayments to meet any liability in respect of credit arrangements (other than any liability which, in accordance with proper practices, must be charged to a revenue account), are to be funded from the Major Repairs Reserve, this shall be accounted for by debiting the Major Repairs Reserve and crediting the Capital Adjustment Account, this transfer to be reported in the Movement in Reserves Statement.
- An authority is permitted by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* to make an additional voluntary credit transfer to the Major Repairs Reserve for an amount '*in excess of any charge for depreciation to its Major Repairs Reserve'*.

CHAPTER EIGHT

Liabilities

8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

8.2.3 Statutory Accounting Requirements

8.2.3.1 In England and Wales, regulations and, in Scotland, Statutory Guidance (see part 2 of Appendix B for the legislative basis) permit an authority to defer the impact of any provision made for back pay arising out of unequal pay claims on a revenue account. In Scotland, Statutory Guidance in Scottish Government Finance Circular 4/2015 also allows deferral of severance pay.

8.2.3.2 Where an authority elects to apply the regulation, the difference between the amount of expenditure included in Surplus or Deficit on the Provision of Services in each year and the amount charged under the regulations shall be debited to the Unequal Pay Back Pay Account, with a corresponding credit to the appropriate revenue account. In Scotland the account shall be the Equal Pay Provision Statutory Adjustment Account and for severance a Severance Provision Statutory Adjustment Account.

8.2.3.3 To the extent that a provision is derecognised (for example where payments are made to a group of employees), an authority shall credit the Unequal Pay Back Pay Account, Equal Pay Provision Statutory Adjustment Account or Severance Provision Statutory Adjustment Account, with a corresponding debit to the appropriate revenue account.

8.2.3.4 There are no equivalent provisions in ~~Scotland and~~ Northern Ireland; authorities in ~~those countries~~Northern Ireland shall account for any provisions in relation to back pay arising out of unequal pay claims in accordance with the Code.

8.2.6 Changes since the 2014/15 Code

8.2.6.1 The 2015/16 Code Update (and the 2016/17 Code) ~~The 2015/16 Code~~ includes ~~appropriate reference to IFRIC 21 for~~minor amendments to the section on provisions, contingent liabilities and contingent assets for Statutory Guidance in Scottish Government Finance Circular 4/2015, Accounting for Equal Pay and Severance.

APPENDIX B

Sources and legislation

PART 1 – STATUTORY SOURCES

Great Britain

1 Local Government and Housing Act 1989 *(including HRA in England and Wales)*

2 Local Government Finance Act 1992 *(Council tax)*

3 Waste and Emissions Trading Act 2003 *(Landfill allowances)*

England and Wales

1 Local Government Act 1972

2 Superannuation Act 1972 *(Pension funds)*

3 Local Government Finance Act 1988 *(General Fund and Collection Fund)*

4 The Local Government and Housing Act 1989 ~~Audit Commission Act 1998~~

5 School Standards and Framework Act 1998 *(School balances)*

6 Transport Act 2000

7 Education Act 2002 *(Dedicated Schools Grant)*

8 Local Government Act 2003, Part 1 *(Capital finance and accounts)*

9 Local Government Act 2003, Part IV *(Business Improvement Districts)*

10 Waste and Emissions Trading Act 2003

11 Public Audit (Wales) Act 2004

12 National Health Service Act 2006

13 National Health Service (Wales) Act 2006

14 Planning Act 2008 *(Community Infrastructure Levy)*

15 Business Rate Supplements Act 2009

16 The Local Audit and Accountability Act 2014

~~16 The Accounts and Audit (England) Regulations 2011 (SI 2011/817)~~

17 The Accounts and Audit (Wales) Regulations 2014 (Welsh SI 2014/3362)

18 The Accounts and Audit Regulations 2015 (SI 2015/234)

Scotland

1 Local Government (Scotland) Act 1973

2 Local Government (Scotland) Act 1975

3 Housing (Scotland) Act 1987 *(HRA)*

4 Local Government etc (Scotland) Act 1994

5 Public Finance and Accountability (Scotland) Act 2000

6 Transport (Scotland) Act 2001

7 Community Care and Health (Scotland) Act 2002

8 Local Government in Scotland Act 2003

9 Transport (Scotland) Act 2005

10 The Local Authority Accounts (Scotland) Regulations 2014

Northern Ireland

1 Local Government Act (Northern Ireland) 1972

2 The Local Government (Miscellaneous Provisions) (Northern Ireland) Orders
1985
1992
1995

3 The Local Government (Northern Ireland) Order 2005

~~4 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006~~

~~5~~4 The Local Government Companies (Best Value) Order (Northern Ireland) 2006

~~6~~5 Local Government Finance Act (Northern Ireland) 2011

~~7~~6 The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326)

7 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (SRNI 2015/106)

PART 2 – LEGISLATIVE BASIS FOR STATUTORY ACCOUNTING SECTIONS OF THE CODE

Chapter/section	England and Wales	Scotland	Northern Ireland
4.1 Property, Plant and Equipment	**Depreciation:** General Fund (references to General Fund throughout this Appendix are to be read as Council Fund in Wales): as a consequence of the requirement to charge the General Fund with Minimum Revenue Provision (see SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance). HRA: Item 8 Credit and Item 8 Debit (General) Determinations. Major Repairs Reserve (England): the Accounts and Audit ~~(England)~~ Regulations ~~2011~~ 2015 (SI 2015/234~~SI 2011/817~~). **Revaluation Losses:** As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Act 2003 and various regulations and statutory guidance).	**Depreciation:** General Fund: as a consequence of the requirement to charge the General Fund with Loans Fund principal repayments (see Schedule 3 paragraph 15(1) of the Local Government (Scotland) Act 1975 and related statutory guidance). HRA: Part II of Schedule 15 paragraph 3(a) of the Housing (Scotland) Act 1987. **Revaluation Losses:** As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see SSI 2004/29 requiring adherence to CIPFA's *Prudential Code for Capital Finance in Local Authorities*).	**Depreciation:** As a consequence of the requirement to charge the General Fund with Minimum Revenue Provision. (See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland).* **Revaluation Losses:** As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed. See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).

…

Chapter/section	England and Wales	Scotland	Northern Ireland
8.2 Provisions (in respect of unequal pay back pay and severance for Scottish local authorities)	SI 2007/573 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. SI 2010/454 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010. SI 2013/476 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010. SI 2007/1051 (W.108) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007. SI 2010/685 (W.67) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.	~~Not applicable.~~ Scottish Government Finance Circular 4/2015.	Not applicable.

APPENDIX C
Changes in accounting policies: disclosures in the 2014/15 and 2015/16 financial statements

C.1 INTRODUCTION

C.1.1 Paragraph 3.3.2.13 of the Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. In addition, paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

C.1.2 A complete set of financial statements is defined in paragraph 3.4.2.17 of the Code. This includes a Balance Sheet as at the beginning of the preceding period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

C.1.3 This appendix sets out the additional disclosures that will be required in the 2014/15 and 2015/16 financial statements in respect of accounting changes that are introduced by the 2015/16 Code.

C.2 DISCLOSURES REQUIRED IN THE 2014/15 AND 2015/16 FINANCIAL STATEMENTS

2014/15

C.2.1 An authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. An authority shall provide known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the authority's financial statements including the group statements in the period of initial application. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2015 for 2015/16). For this disclosure the standards introduced by the 2015/16 Code include:

- IFRS 13 *Fair Value Measurement*
- *Annual Improvements to IFRSs 2011–2013 Cycle*
- IFRIC 21 *Levies.*

(Note: it is anticipated that IFRS 13, which is applied prospectively, *Annual Improvements to IFRS 2011–2013*, and IFRIC 21 will not have a material impact on the financial statements. Where this is not the case, local authorities shall ensure they comply with the disclosures in the 2014/15 financial statements listed in C2.2 below.)

C2.2 In complying with paragraph C2.1, an authority considers disclosing:

a) the title of the new IFRS, indicating that it has been adopted by this Code

b) the nature of the impending change or changes in accounting policy

c) the date by which application of the IFRS, as adopted by this Code, is required (ie 1 April 2015)

d) the date as at which the authority will adopt the IFRS initially (ie 1 April 2015), and

e) either:

   i) a discussion of the impact that initial application of the IFRS as adopted by this Code is expected to have on the authority's financial statements, or

   ii) if that impact is not known or reasonably estimable, a statement to that effect.

2015/16

C2.3 The adoption of IFRS 13 in the Code is not a change of accounting policy that will require the publication of a third Balance Sheet. CIPFA/LASAAC considers it unlikely that IFRIC 21 *Levies* will require the publication of a third Balance Sheet. Where authorities consider that they need to include a third Balance Sheet, they will need to comply with the requirements of section 3.3 of the Code and paragraph C.2.4, sub-paragraphs a) to d) below.

C2.4 The adoption of the *Annual Improvements to IFRSs 2011–2013 Cycle*[11] in the Code represents a change of accounting policy that may require the publication of a restated Balance Sheet as at the beginning of the preceding period (ie a third

11 Note CIPFA/LASAAC considers it possible but unlikely that the amendments introduced by *Annual Improvements to IFRSs 2011–2013 Cycle* are such a change in accounting policy.

Balance Sheet) in the 2015/16 financial statements or in the group financial statements where the changes brought about by the amendments to these standards are material. In addition to the presentation of the third Balance Sheet, the authority is required to:

a) include narrative description that the change in accounting policy is as a result of the Code's adoption of the amendments to the standards in question

b) set out the nature of the change of the accounting policy

c) for the current period and the previous period, the amount of the adjustment to each line item in the financial statements affected, to the extent practicable, and

d) the amount of the adjustments relating to the prior period before the periods presented, to the extent practicable.

Other Changes

C.2.5 Other changes adopted in the 2015/16 Code are not expected to require additional disclosure in the 2014/15 or 2015/16 financial statements. Some changes to the Code relate to changes in circumstances. Other changes clarify the requirements of the Code or provide additional guidance, but do not change the requirements of the Code.

C.2.6 In some cases, the Code refers to accounting standards, but does not incorporate their requirements directly. If an authority is relying on the requirements of the underlying standards, and these have changed, the authority shall make such disclosures as are required to meet the requirements of paragraph 3.3.4.3 of the Code in the 2014/15 financial statements, and shall consider whether the changes will require the publication of a Balance Sheet as at the beginning of the preceding period (ie a third Balance Sheet) in the 2015/16 financial statements.

~~Disclosure of a Change of Accounting Policy for Transport Infrastructure Assets in the 2015/16 Financial Year~~

~~C.2.7 Appendix C to this Code normally confirms for the preceding financial year the changes in accounting policies in the current Code which are anticipated to be reported in the earlier financial year to reflect a forthcoming change in accounting policy. However, CIPFA/LASAAC is able to confirm the required disclosures for the 2016/17 change in accounting policy for transport infrastructure assets for the 2015/16 year in the 2015/16 Code. The relevant disclosures are included at paragraph D.1.5.~~

APPENDIX D

Changes in accounting policies: confirmation of changes to forthcoming editions of the Code

D.1 INTRODUCTION

D.1.1 This appendix sets out the reporting requirements that CIPFA/LASAAC has agreed for future editions of the Code to enable local authorities to plan for the reporting requirements of the changes listed below.

Adoption of the measurement requirements of the *Code of Practice on Transport Infrastructure Assets* in the 2016/17 Code

D.1.2 CIPFA/LASAAC has agreed that the 2016/17 edition of this Code will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets*, as amended in 2013 (or any subsequent amendments to that Code that may be issued), ie measurement on a Depreciated Replacement Cost (DRC) basis.

D.1.3 This will represent a change in accounting policy from 1 April 2016 and ~~will require~~shall ~~full retrospective restatement~~be accounted for retrospectively. in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ~~and IAS 1 *Presentation of Financial Statements* as adopted by this Code~~. However, exceptionally, the 2016/17 Code will include an adaptation to IAS 1 for the transition for the move to measuring the Highways Network Asset at Depreciated Replacement Cost so that there is no requirement to restate the preceding year information or for an opening balance as at 1 April 2016. The change shall therefore be accounted for as an adjustment to opening balances as at 1 April 2016. This change to the Code will require the establishment of a separate asset, the Highways Network Asset; ~~class of assets for transport infrastructure assets~~ in accordance with the ~~types of assets~~components classified in the *Code of Practice on Transport Infrastructure*

Assets (this will require a disaggregation of those transport infrastructure assets from the current infrastructure assets class of assets). The remaining provisions in section 4.1 of the Code and other sections of the Code will continue to apply to ~~transport infrastructure assets~~the Highways Network Asset in the same way as any other item of property, plant and equipment. Specific recognition and measurement requirements will be included in a new section 4.11.

~~D14 It is recommended that local authorities use the years prior to 2016/17 to establish information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure assets as authorities are likely to need to provide:~~

~~opening balances of the assets for 1 April 2015 (ie the opening balances for the relevant transactions for the comparative year), and~~

~~comparative information on transactions in the preceding year, ie 2015/16.~~

~~D15 The years preceding the 2016/17 adoption of these measurement requirements will therefore need to be preparatory years to build up the information for full adoption by 1 April 2016. To this effect Appendix C in the 2016/17 edition of this Code will also specify the accounting requirements for the change in accounting policy using the same approach as it does for the requirements of paragraph 3.3.4.3, which requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. Therefore the following disclosure requirements will apply to the 2015/16 financial statements as a result of the change in accounting policy for transport infrastructure assets in the 2016/17 Code:~~

~~a) An authority shall, where material, disclose the following items in the 2015/16 financial statements (to the extent that the information is known or reasonably estimable):~~

~~i) narrative, related to the authority's specific circumstances, explaining that transport infrastructure assets are to be recognised as a separate class of property, plant and equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements, in accordance with the CIPFA *Code of Practice on Transport Infrastructure Assets* and the recognition, measurement and disclosure requirements of section 4.1 of this Code~~

~~ii) the carrying amount of assets expected to be reclassified as transport infrastructure assets, ie the original 1 April 2015 measurement at depreciated historical cost~~

~~iii) the expected amount of any revaluation gains and losses to be recognised on reclassification and remeasurement, and~~

~~iv) the expected change in depreciation, impairment, revaluation gains and losses, gains and losses for disposals or decommissioned assets to be recognised (or derecognised) in 2015/16 comparatives in the 2016/17~~

~~financial statements.~~