CIPFA The Chartered Institute of Public Finance & Accountancy

# report

Paper CL 12 03-13

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| Committee | CIPFA/LASAAC |
| Venue | CIPFA in Scotland Offices, Edinburgh |
| Date | 5 March 2013 |
| Author | Sarah Sheen, CIPFA<br>Technical Manager, Local Government Financial Reporting |
| Subject | Development of 2014/15 Code of Practice on Local Authority Accounting (the Code) |

The purpose of this report is to seek the views of CIPFA/LASAAC members regarding the changes that will be required to the 2014/15 Code of Practice on Local Authority Accounting

## 1 Introduction

1.1 At its November 2012 meeting CIPFA/LASAAC noted a report on the changes that will be required to the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for the 2014/15 Code. This report provides an update on developments in legislation and financial reporting standards since that meeting, enabling CIPFA/LASAAC to consider the modifications it requires to the 2014/15 Code and thus establish the development programme for the year.

1.2 The 2013/14 Code has been developed to incorporate:

- any known legislative changes,
- changes in relation to pronouncements by CIPFA and other bodies; and
- new accounting standards that have a mandatory commencement date of 1 January 2014 or earlier (though Members will be aware of the developments in relation to IFRS 13 – see report CL 01 02-13)

The Code has not been developed to incorporate other accounting standards ahead of their effective date.

1.3 It is recommended that a similar approach is applied in developing the 2014/15 Code.

1.4 The 2013/14 Code consultation sought local authorities views on areas where further guidance might needed. Those that can be considered for inclusion in the 2014/15 Code are included in Appendix A. In addition CIPFA/LASAAC agreed last year that it would review those disclosures only required by Whole of Government Accounts (including the exit package disclosure).

1.5 The 2014/15 Code will also need to include the deferred provisions on IFRS 13 *Fair Value Measurement* which is considered elsewhere on the agenda. It is possible that the outcomes of the conclusions of the Working Party - Accounting for Schools in Local Government and the wider pan sector group will need to be incorporated into 2014/15 Code and this group may also need to consider the outcomes of the wider review on accounting for schools.

1.6 CIPFA/LASAAC members are asked for their views on these proposals, and to suggest any other items which, in their view, should be incorporated into the 2014/15 Code.

1.7 This report also provides details of developments being undertaken which are expected to be relevant to the development of the Code for 2015/16 or later years in Appendix B.

## 2 Changes in legislation that are expected to impact on the 2014/15 Code

2.1 The following outlines the legislation and other policy initiatives that are anticipated to impact on the 2014/15 Code.

**Capital Finance System Amendments: Equal Pay Paper by DCLG**

2.2 In January the DCLG issued a paper on capital finance system amendments in relation to equal pay. The paper outlined proposals to extend the protection for equal pay liabilities until 1 April 2016, and to permit these liabilities to be funded by capital receipts. The Welsh Government has indicated that it also intends amending regulations to extend the protection for the equal pay liabilities identified after 1 April 2013. The Secretariat considers that both of these proposals are not likely to be covered by the existing Code provisions on Revenue Expenditure Funded from Capital under Statute.

**The Draft Local Audit Bill**

2.3 The Draft Local Audit Bill was published in July 2012. The changes to terminology of the legislative provisions may need to be included in the Code.

2.4 *The Future of Local Public Audit*[1] consultation also included questions on the possibility of the use of Annual Reports for local authorities. The Draft Bill does not currently include any provisions on the need to produce an Annual Report. Members will be aware that the current provisions include an encouragement for local authorities to follow the provisions of the FReM on the management commentary. This approach was intended to be in place until the legislative provisions for local authorities, particularly in England are clear. However, this is not yet the case as there is a possibility that this might be brought forward by means of secondary legislation.

**Social Impact Bonds**

2.5 Previous reports on the development of the Code have included the possibility of Social Impact Bonds. The Secretariat considers that the accounting treatment of social impact bonds can be addressed under the existing prescriptions of the Code. In November 2012 CIPFA issued a publication *Accounting for Payment by*

[1] Issued by DCLG March 2011

*Results Schemes including Social Impact Bonds* which covers detailed application on these types of transactions.

**Community Infrastructure Levy**

2.6 On 29 November 2012 the Community Infrastructure Levy 2012 Amendment regulations came into force. These regulations include a number of technical changes and also include clarification of the ways charging authorities can apply the Community Infrastructure Levy to funding local infrastructure. The 2013/14 Code will be reviewed for consistency with the amending regulations. However, the Secretariat does not consider that there will be significant change for the new regulations.

**Carbon Reduction Commitment (CRC) Energy Efficiency Scheme (Review)**

2.7 Board Members will be aware of the comments by the Chancellor on the CRC Scheme in last year's budget and autumn statements which has meant that the Scheme remains under review. The Board will also remember that the 2013/14 Code stipulates that the assets should be measured as current intangible assets, or in the unlikely event that these assets are purchased for trading purposes, as inventory items. CIPFA/LASAAC determined that this was a short term measure for the 2012/13 Code Update and 2013/14 Code only. For information FRAB also requested that HM Treasury and CIPFA/LASAAC keep this item under review.

**Amendments to the Local Authority Accounts (Scotland) Regulations 1985 (SI 1985, No. 267)**

2.8 Following a LASAAC request for a review, the Scottish Government established a stakeholder working group to consider amendments to the Regulations. Regulations have yet to be issued but remain a possibility for the 2014/15 Code.

**Integrated Health and Social Care Scotland**

2.9 The Scottish Government is considering the integration of health and social care. A consultation on the proposals has been issued by Scottish Government, it is not yet clear whether this will impact on the provisions of the 2014/15 Code.

**Other Possible Policy and Legislative Changes in Scotland**

2.10 The Secretariat also understands that the Scottish government might issue clarification on the accounting arrangements for the loans fund in Scotland. In addition there may be further details issued on the accounting arrangements for Tax Increment Financing in Scotland.

**Review of the Accounts and Audit (Wales) Regulations 2005, as Amended**

2.11 The above mentioned regulations are anticipated to be subject to review by the Welsh Government. The Secretariat understands that these amendments are intended to apply to the 2013/14 financial year. It is not clear whether any significant amendments would be required to the 2014/15 Code at this juncture.

## 3. Other Guidance

3.1 At this stage, the Secretariat is not aware of any other definite proposals for other guidance that will affect the development of the Code for 2014/15 Code or later years, but will keep the situation under review.

## 4 Accounting Standards

4.1 The 2014/15 Code will require adoption of standards with an effective date of between 2 January 2013 and 1 January 2014 and the deferred IFRS 13 which is considered in more detail under a separate agenda item. At the time this report was drafted there a number of projects that have been completed by the IASB, which have been considered previously by CIPFA/LASAAC:

- The Group Accounting Standards ie:
  - IFRS 10 *Consolidated Financial Statements;*
  - IFRS 11 *Joint Arrangements;*
  - IFRS 12 *Disclosure of Interests in Other Entities;*
  - IAS 27 *Separate Financial Statements* (as amended in 2011);
  - IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011);
  - Transition Guidance (Amendments to IFRS 10 IFRS 11 and IFRS 12 (issued June 2012);
- IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (*issued December 2011*);*
- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued October 2012);
- Annual Improvements to IFRSs 2009-2011;
- IFRS 1 First Time Adoption of International Financial Reporting Standards: Government Loans

**The Group Accounting Standards**

4.2 The Group Accounting Standards were considered by CIPFA/LASAAC at its June 2011 meeting and at a number of other meetings. In summary IFRS 10 replaces the consolidated financial statements provisions in IAS 27. IFRS 11 supersedes IAS 31 interests in Joint Ventures. IFRS 12 replaces the disclosure requirements of IAS 27, IAS 28 and IAS 31 except for the disclosure requirements in IAS 27 for the preparation of separate financial statements. IAS 28 (as amended in 2011) now additionally includes the requirements for the application of the equity method for an entity's interest in joint ventures. All the standards have an effective date of 1 January 2013 (although the EU adoption process resulted in an effective date in the EU of 1 January 2014) and therefore would be applicable to the 2014/15 Code.

4.3 As was noted at the Board's June and November 2011 meetings the principle of control applied in IFRS 10 is relied upon in all the new or amended standards. The assessment of control in IFRS 10 places heavy reliance on the power of the investor to influence an investee's returns. Such a reliance on the investor and investee relationship and the concept of returns as set out above is likely to cause significant application difficulties for local authorities whose interest in their subsidiaries is often not to benefit from a financial return but to benefit from the service potential generated by activities of the subsidiary or to allow others to benefit from the activities. In addition the approach to Structured (Special Purpose) Entities in both IFRS 10 and IFRS 12 is likely to need additional consideration by the Board. This issue will be considered in depth at the wider across sector group on accounting for schools which will be fed back regularly to CIPFA/LASAAC to assist with their deliberations on any adaptations needed for the 2014/15 Code.

4.4 The IASB issued amendments to IFRS 10 to clarify the transition guidance in IFRS 10 by confirming when an entity needs to apply the Standard retrospectively.

**Annual Improvements to IFRSs 2009-2011**

4.5 The abovementioned improvements projects include amendments to:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*:
  - Repeated application of IFRS 1
  - Borrowing costs
- IAS 1 *Presentation of Financial Statements*—Clarification of the requirements for comparative information
- IAS 16 *Property, Plant and Equipment*—Classification of servicing equipment
- IAS 32 *Financial Instruments: Presentation*—Tax effect of distribution to holders of equity instruments
- IAS 34 *Interim Financial Reporting*—Interim financial reporting and segment information for total assets and liabilities

4.6 It is unlikely that the amendments to IFRS 1 will have a significant application for local authorities. Both the amendments to IAS 1 and IAS 16 do apply to local authorities. However, this will require minimum amendment to the Code. The IAS 32 amendments will not have a direct application to local authority single entity financial statements though might impact on the group statements. The amendments to IAS 34 will not apply to local authorities.

**IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities**

4.7 In addition to the new disclosure requirements for offsetting that has already been adopted by the 2013/14 Code (IFRS 7 amendments), the IASB also decided to separately provide additional application guidance for offsetting in accordance with IAS 32. This guidance clarifies:

- the meaning of 'currently has a legally enforceable right of set-off'; and
- that some gross settlement systems may be considered equivalent to net settlement.

This will need to be added to the provisions of the Code but is unlikely to have a significant impact on local authorities.

**Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

4.8 The IASB published *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012, providing an exception to the consolidation requirements in IFRS 10 for investment entities. This is unlikely to apply significantly to local authorities.

**IFRS 1 First Time Adoption of International Financial Reporting Standards: Government Loans**

4.9 The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. It is unlikely that this will have a significant impact on the Code for local authorities.

4.10 The following are projects currently being considered by the IASB which may be effective in time for inclusion in the 2014/15 Code.

| **Standard/ Amended Standard or IFRIC** | **Secretariat Comment** |
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| Revenue Recognition - The new standard has a target date for issue in the quarter 2 of 2013. | The new standard is anticipated to clarify the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. Whilst it is not clear as yet what the effective date will be, the IASB usually allows at least one year before adoption becomes mandatory However, it will need to be considered for adoption in the 2014/15 Code if the effective date is earlier and the standard is EU adopted in time for inclusion in the 2014/15 Code. |
| Acquisition of an interest in a joint operation (proposed amendment to IFRS 11) – Target IFRS in quarter 4 of 2013 | This amendment is anticipated to add new guidance to IFRS 11 *Joint Arrangements* on the accounting for the acquisition of an interest in a joint operation that constitutes a business. Although this amendment would apply to local authorities it is possible but unlikely that this will have an effective date and be EU adopted for the 2014/15 Code. |
| Annual Improvements 2010-2012 (Target IFRS in quarter 2 of 2013) | This project is likely to include improvements to the following standards:<br>▪ IFRS 2 *Share-based - Payment* Definition of 'vesting condition'<br>▪ **IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination**<br>▪ **IFRS 8 *Operating Segments* - Aggregation of operating** |

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| | **segments Reconciliation of the total of the reportable segments' assets to the entity's assets**<br>▪ **IFRS 13 *Fair Value Measurement -* Short-term receivables and payables**<br>▪ **IAS 1 *Presentation of Financial Statements-* Current/non-current classification of liabilities**<br>▪ **IAS 7 *Statement of Cash Flows* -interest paid that is capitalised**<br>▪ **IAS 12 *Income Taxes* Recognition of deferred tax assets for unrealised losses**<br>▪ **IAS 16 *Property, Plant and Equipment* IAS 38 *Intangible Assets-* Revaluation method—proportionate restatement of accumulated depreciation**<br>▪ **IAS 24 *Related Party Disclosures-* Key management personnel**<br>▪ **IAS 36 *Impairment of Assets* Harmonisation of disclosures for value in use and fair value less costs of disposal.**<br>It is likely that a number of these improvements highlighted in bold font will have an application for local authorities (in varying degrees); the application date for the project is 1 January 2014 but will be subject to EU adoption. |
| Annual Improvements 2011-2013 (Target IFRS in quarter 3 of 2013) | This project is likely to include improvements to the following standards<br>▪ IFRS 1 First-time Adoption of International Financial Reporting Standards Meaning of effective IFRSs.<br>▪ **IFRS 3 Business Combinations Scope exceptions for joint ventures.**<br>▪ IFRS 13 Fair Value Measurement Scope of paragraph 52 (portfolio exception).<br>▪ **IAS 40 Investment Property Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 when classifying property as investment property or owner-** |

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| | **occupied property.**<br>It is likely that a number of these improvements highlighted in bold font will have an application for local authorities (in varying degrees); the application date for the project is 1 January 2014 but will be subject to EU adoption. |
| Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38) Target IFRS in quarter 2 of 2013 | This project is a limited-scope amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to prohibit the use of a revenue-based depreciation or amortisation method. Although relevant this is unlikely to have a significant application to local authorities as they are unlikely to use revenue-based depreciation or amortisation, with the possible exception of social housing if authorities have chosen the DCF methodology. |
| Equity Method: Share of Other Net Asset Changes | This amendment is intended to provide additional guidance to IAS 28 *Investments in Associates and Joint Ventures* on the application of the equity method. This amendment will apply to local authorities. |
| IFRIC - Levies Charged by Public Authorities on Entities that Operate in a Specific Market. Target IFRIC – quarter 2 2013 | The proposed IFRIC is anticipated to provide guidance on the accounting for levies in the financial statements of the entity paying the levy. This IFRIC will apply to local authorities. |

**IPSASB Standards and Developments**

4.11 IPSASB has issued the first phase of its conceptual framework in January 2013. The first four chapters of the Conceptual Framework are:

- Chapter 1: Role and Authority of the Conceptual Framework
- Chapter 2: Objectives and Users of General Purpose Financial Reporting
- Chapter 3: Qualitative Characteristics
- Chapter 4: Reporting Entity.

The Secretariat considers that it would be important to review the Code for the impact of the IPSASB Conceptual Framework. However, as the IASB Conceptual Framework is also under development it considers that it needs to do this once the IPSASB framework is complete. Other IPSASB developments are included in Appendix B

**Merger Accounting (transfers of functions and other combinations of public sector bodies) – Changes to the FReM**

4.12 At its last meeting the Board noted the need to consider the adoption of the new merger accounting provisions in the FReM. The merger accounting provisions are extracted for ease of reference at Appendix C to this report. Board Members were also sent the latest draft of guidance on the FReM provisions of Merger Accounting (at the last meeting). As noted previously the FReM's provisions have included the introduction of a form of Merger Accounting (described in the FReM as transfer by absorption). The Secretariat contends that the Code already adopts this approach to accounting for transfers of public sector organisations in Section 2.5. However, there are three areas which would include further consideration for Code amendment, as the Code does not include:

- the definition of a transfer of a function (which would be very useful to local government organisations).
- any gains or losses on the net assets or liabilities transferred under local government reorganisation or other public sector combinations as a non-operating gain/loss but as a reserve transfer. Chapter four of the FReM recognises gains or losses on the net/asset liability resulting from a transfer of a function as a non-operating gain/loss.
- mid-year transfers of functions or public bodies.

4.13 As these transfers of public sector bodies will be important for Whole of Government Accounts, the Secretariat recommends aligning as far as possible with the FReM. However, there will need to be a review process for consideration of the areas where the FReM differs from the Code, particularly, the recognition of any gains/losses arising from the transfer. It is notable that IPSASB has issued the Consultation Paper (CP), Public Sector Combinations which closed on the 31 October 2012. The paper is available by means of the following link: *Public Sector Combinations*.

**Other Issues Identified for the Development Programme**

4.14 During the review and production of the 2013/14 Code CIPFA/LASAAC identified two further issues which are to remain on the development programme for the Code (and might need to be included in the 2014/15 Code.

- The review of the approach to liabilities in relation to service concession arrangements ie the measurement of the liabilities under typical schemes as financial liabilities [at fair value] rather than as finance lease payables and the grant of the right to an operator (third party payments) model, and
- A review of the approach to reporting of actuarial present value of promised retirement benefits.

## Recommendation

**CIPFA/LASAAC is asked to agree which developments are to be incorporated into the 2014/15 Code.**

**APPENDIX A**

**Issues Raised by the Consultation on the 2013/14 Code Agreed by CIPFA/LASAAC to be Carried Forward into the 2014/15 Code (or in one case an items which will remain under review)**

| | **Issue Raised** | **Secretariat Response** |
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| 1 | The term 'statement of accounts' is defined in paragraph 1.6.4 as 'the financial statements, statement of accounting policies, and notes to the accounts ….for the purpose of the auditor's certificate and opinion'.<br><br>The separate reference to statement of accounting policies is not required. It is now known as a summary of significant accounting policies and forms part of the notes.<br><br>It is not clear why the definition is restricted to the auditor's certificate and opinion. We suggest that 'for the purpose of the auditor's certificate and opinion' be removed. (paragraphs 1.1.2/1.6.4)<br><br>The term 'statement of accounts' is used on several occasions before this paragraph. We suggest the definition (amended as above) is moved to the place where it is first used (i.e. paragraph 1.1.2) so that it is clear from the outset what it covers. | The Board changed the reference to Statement of Accounting policies to summary of significant accounting policies to be consistent with other references but the other recommendations might mean slightly different things in each of the jurisdictions.<br><br>**To be reviewed in the 2014/15 Code.** |
| 4 | The Code refers to the requirement for a true and fair view in several places, but there are some inconsistencies in the wording used. For example, paragraph 1.4.1 states that the accounts should give a 'true and fair' view of the financial position and financial performance of the authority. Paragraph 2.1.1.4 refers to presenting a true and fair view of cash-flows. Paragraph 3.2.4.1 refers to 'a true and fair view of expenditure and income'.<br><br>References to true and fair in other paragraphs (e.g. 1.1.1 and 1.1.5) are to 'transactions' rather than 'financial performance', or 'expenditure and income', and do not mention cash-flows.<br><br>We suggest that consistent phraseology is used throughout the Code in respect of true and fair, and that 'gives a true and fair view of the financial position and | Some of these references come from elements of IFRS, for example the Conceptual Framework where terminology includes references to cash flows in terms of the objectives of the financial statements. Some of these references refer to the statutory requirements which do not mention cash flows.<br><br>**To be reviewed in the 2014/15 Code.** |

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| | transactions of the authority' be used throughout. | |
| 5 | Paragraph 1.5.3 states that authorities should ensure that the explanatory foreword does not contain material inaccuracies or misleading statements in relation to the statement of accounts.<br><br>We agree with this principle but suggest that the wording be changed to 'ensure that it is consistent with the statement of accounts'. This promotes consistency (rather than the slightly different emphasis of avoiding inconsistency) and is in accordance with the auditor's responsibility to give an opinion on the foreword's consistency with the accounts. | **To be reviewed in the 2014/15 Code.** |
| 6 | Paragraph 2.1.2.23 is the first of many places where the key term 'service potential' is used. However, it is not defined anywhere in the Code.<br><br>We suggest that a definition or further explanation of service potential be provided in the Code.<br><br>There is also a typo in this paragraph, where 'to' is missing after 'expected'. | The Secretariat is aware that there is not a definition of service potential in the Code. This has been considered as a part of the review of accounting for schools. There is a definition available in the Statement of Principles for Financial Statements Interpretation for Public Benefit Entities, ASB 2007. However, it is considered that it would be beneficial to await developments in the IPSASB Conceptual Framework which is likely to cover this issue in more detail.<br><br>The Secretariat recommends that this is held under review by the Board. |
| 9 | Paragraph 3.4.2.17 lists what a complete set of financial statements comprises. However, it omits the HRA statements; collection fund/council tax income account; and non-domestic rate income account. | This statement accords with IAS 1 comments that formal extension to include the HRA and other statutory statements would require consultation. The inclusion of the other statements can be considered in the development programme for the 2014/15 Code.<br><br>The Secretariat recommends an approach which adds the following provision to the paragraph.<br><br>"Statements which are required to be included in the Statements of Account in accordance with statutory requirements."<br><br>**To be reviewed in the 2014/15 Code.** |
| 10 | Paragraph 3.4.2.34 states that the financial statements should be clearly | The Secretariat would suggest the approach to the previous point is used. |

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| | identified from other information. We suggest that 'and notes' be added after 'financial statements'. | **To be reviewed in the 2014/15 Code.** |
| 11 | Paragraph 6.5.1.3 states that section 6.5 of the Code does not by itself specify all the requirements for preparing pension fund financial statements, and other relevant provisions of the Code apply to the extent they are not superseded by section 6.5. It would be helpful on the grounds of consistency if the main relevant provisions in respect of other statements to be included with the financial statements in the pension fund annual report were listed in this paragraph. We suggest, for example, clarification is added that paragraph 3.2.1.1 of the Code which requires a statement of responsibilities and paragraph 3.1.1.1 of the Code which requires an explanatory foreword apply to the pension fund financial statements.<br><br>However, the Code's requirement for an annual governance statement is superseded by the statutory requirement for a governance compliance statement, and therefore an annual governance statement should not be included with the pension fund financial statements. We suggest that this be clarified in the Code.<br><br>Another authority referred to pension fund accounting not being incorporated into "your normal change regime. 2010/11 saw a fundamental change in relation to financial instruments and 2011/12 the introduction of related party disclosures". | Much of this information is provided in the CIPFA *Example Accounts and Disclosure Checklist.* However, the Board might wish to consider the inclusion of a list of the provisions and disclosures of the Code which apply to the pension fund in section 6.5 or, alternatively it might consider that this is best covered in application guidance. The Board at the last meeting noted that it needed to consider the publication. This is attached in the papers.<br><br>**To be reviewed in the 2014/15 Code.** |
| 12 | Paragraph 9.1.1.5, which is under the heading of interpretations and adaptations, includes a requirement for authorities in Scotland to consider the consolidation of common good funds in the group accounts. It is not clear why it is considered that this requirement is an adaptation or interpretation. The inclusion of the common good in group accounts should be considered in line with SIC 12 (see following point in regard to paragraph 9.1.1.9). | The Secretariat considers that this needs to be reviewed with for the 2014/15 Code with the amendments in relation to IFRS 10.<br><br>**To be reviewed in the 2014/15 Code.** |

APPENDIX B

**Developments in Accounting Standards to be included in Future Editions of the Code**

| **Development** | **Commentary** | **Expected Date** | **Code Edition** |
|---|---|---|---|
| IASB: Leases | The new standard will require that entities must recognise assets and liabilities arising from a lease. The previous proposals are being re-exposed, but are expected to include the abolition of the operating lease/finance lease split. | Target ED quarter 2 of 2013 | Not Known |
| IASB: Insurance Contracts | This project proposes a comprehensive measurement approach for all types of contracts issued by entities (including reinsurance contracts). | Target ED by quarter 2 of 2013 | Not known |
| IFRS 9: *Financial Instruments: Classification and Measurement* | The main standard was issued in November 2009 and October 2010. A change to the effective date was issued in December 2011. In November 2012 the IASB issued an Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9 (Proposed amendments to IFRS 9 (2010). | 1 January 2015 | 2015/16 |
| IFRS 9 – Impairment – Phase 2 – ED to be issued in quarter 1 of 2013 | The IASB sets out that the objective of this phase of financial instruments project is to improve the usefulness of financial statements for users by improving the amortised cost measurement, in particular the transparency of provisions for losses on loans and for the credit quality of financial assets. | 1 January[1] 2015 | 2015/16 |
| Hedge Accounting – Phase 3- Target IFRS issued in quarter 2 of 2013 | The IASB has issued a draft of the forthcoming general hedge accounting requirements that will be added to IFRS 9. The requirements will better reflect an entity's risk management activities. | 1 January 2015 | 2015/16 |
| Macro Hedging – Target Discussion Paper to be issued by end of quarter 2 of 2013 | This is a part of the third phase of the financial instruments project. The IASB sets out that the objective of this phase is to improve the usefulness of financial statements for users by fundamentally reconsidering the current hedge accounting requirements. | Not known | Not known |

[1] This date anticipates that this phase of the financial instruments project will be issued in accordance with the new effective date of the standard ie 1 January 2015

| **Development** | **Commentary** | **Expected Date** | **Code Edition** |
|---|---|---|---|
| IASB: Conceptual Framework | The conceptual framework will focus on the following: Reporting entity, Elements of financial statements (including recognition and derecognition), Measurement, Presentation and disclosure. This *Conceptual Framework* project will build on the work previously done before the project was paused in 2010. | Target Discussion Paper to be issued in quarter 2 of 2013 | Not known |
| Emissions Trading Schemes | Subject of a research project. | Not known | Not known |
| IPSASB: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities | The objective of the project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities. Phase 1 is complete. Phase 2 *Elements and Recognition of Financial Statements* is currently being consulted on. The project includes 4 phases in total. | Various phases | Not known |
| IPSASB: Reporting Service Performance | The objective of this project is to use a principles-based approach to develop a consistent framework for reporting service performance information of public sector programs and services that focuses on meeting the needs of users. The consultation on this project closed on 15 March 2012. | Not known | Not known |
| IPSASB: Financial Statement Discussion and Analysis | The objective of this Standard is to prescribe the manner in which financial statement discussion and analysis should be prepared and presented to assist users to understand an entity's general purpose financial statements. | Not Known | Not Known |
| IPSASB: Public Sector Combinations | The objective of this project is to prescribe the accounting treatment for public sector combinations. The consultation closed on 31 October 2012 | Not Known | Not Known |
| UK GAAP: FRS 102 *The Financial Reporting Standard applicable to the UK and Republic of Ireland* | The Code still uses UK GAAP as a basis of the provisions for Heritage Assets and VAT. The underlying standard on which the Code's provisions will change on issue of the new standard. The new standard is anticipated to apply from | 1 January 2015 | 2015/16 |

| Development | Commentary | Expected Date | Code Edition |
| --- | --- | --- | --- |
| | 1 January 2015. | | |

## *EXTRACT OF THE GOVERNMENT'S FINANCIAL REPORTING MANUAL FOR TRANSFER BY MERGER OR TRANSFER BY ADOPTION*

### *Objective of IFRS 3*

4.2.17 The objective of IFRS 3 is to specify that all business combinations (except those excluded from its scope) should be accounted for using the purchase method (also known as the acquisition method). IFRS 3 requires that all such combinations be accounted for at fair value at the date of the combination and that goodwill arising from such transactions is accounted for as an asset. Goodwill is not amortised but subject to impairment testing as required by IAS 36 *Impairment of Assets*.

### *Transfer by Merger or Transfer by Absorption*

4.2.18 The accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way to ensure there is no transparency gap. A transfer may require both treatments at different levels.

4.2.19 Transfer by Merger accounting should be applied at the group level for bodies applying this Manual. That is, for transfers of function between departments within central government, but not between a Westminster Department and the Welsh Government, Northern Ireland Assembly or Scottish Government, whose income and expenditure is controlled directly by Parliamentary Supply processes (departmental group accounts).

4.2.20 As a Transfer by Merger, the carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. Appropriate adjustments should be made to achieve uniformity of accounting policies in the combining bodies.

4.2.21 The results and cash flows of all the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred, adjusted to achieve uniformity of accounting policies. Restatement of comparatives, including that of the results for all the combining bodies (or functions) for the previous period, should be provided in accordance with IAS 1 as interpreted by this manual. Comparatives should be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.

4.2.22 All other transfers of function between public sector bodies should be accounted for as Transfers by Absorption. This includes transfers: to or from Local Government, to or from Public Corporations; between Devolved Administrations and Whitehall Departments; within a departmental boundary; and for all transfers reported by Executive NDPB's, other arm's length bodies within central government and trading funds.

4.2.23 The carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. There should be no recognition of goodwill and no restatement of comparatives in the primary financial statements. The recorded amounts of net assets should be brought into the financial statements of the transferee from the date of transfer. The net asset/liability carrying value should be recorded as a non-operating gain/loss from the transfer of function, through net expenditure, with the transferor recording symmetrical entries. Revaluation reserves should be transferred in full, with the remaining balance transferred to the General Fund.

4.2.24 For all adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

***Disclosure***

4.2.25 A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place (including a brief description of the transferred function), giving the date of the transfer, the name of the transferring body and the effect on the financial statements. Where accounted for as a Transfer by Absorption, the reporting entity should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance

4.2.26 Both the transferor and the transferee of a business combination under common control should apply a symmetrical accounting treatment for the transfer. A reporting entity that transfers functions to another reporting entity should also provide the same information about the transfer in its financial statements. Public bodies controlled by a parent entity should provide the necessary information required by the parent entity to meet the requirements set out in paragraphs 4.2.14 to 4.2.25.

***Other requirements***

4.2.27 Transfers of non-current assets that are not machinery of government changes1

4.2.28 Any departure from the accounting treatments in 4.2.14 to 4.2.25 must be agreed with the Relevant Authority, and applied symmetrically by the transferor and transferee.