

# Report

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Committee	CIPFA/LASAAC
Venue	CIPFA in Scotland Edinburgh, London
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Subject	Post Implementation Review (PIR) – Review of Actions

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The purpose of this report is to present the a review of actions emanating from the post implementation review

## 1 Introduction and Background

- 1.1 The Post Implementation Review (PIR) Group agreed that the review has completed its work programme. At its last meeting CIPFA/LASAAC concurred with the review that it would pick up the outstanding issues or they would be addressed by Local Authority Accounting Panel (if they were issues of detailed application of the Code). This report is the first of the regular updates on the progress of the PIR's recommendations.
- 1.2 Attached to this report at Appendix 1 is an update on the status of the actions recommended by the post implementation review.

### Recommendations

**CIPFA/LASAAC is invited to consider the issues in the attached Appendix.**

## APPENDIX 1

### Issues Identified for Consideration by the Post Implementation Review and Recommendations Resulting from the Review

Issue Identified	Recommendation and Action – Reported at the November 2012 Meeting of CIPFA/LASAAC	Current
<b>1. Component Accounting</b>		
<p>It was generally considered that the Code effectively adopts component accounting prospectively from 1 April 2010. Extensive application guidance also is available in the Code Guidance Notes<sup>1</sup> and in LAAP Bulletin 86<sup>2</sup>. However, from the evidence available the PIR concluded that practical application issues still existed.</p>	<p>The Post Implementation Review Group suggested that component accounting is more difficult to apply on a valuation basis than a historical cost basis.</p> <p>It considered that some of the practical issues that arise from the application of component accounting for revalued assets may not have been anticipated by IAS 16 <i>Property, Plant and Equipment</i>.</p> <p>It agreed that there should be a review of the application guidance from this perspective. The CIPFA Secretariat recommends that this should be by means of a small Local Authority Accounting Panel (LAAP) Review Group.</p> <p><b>Current position LAAP is considering the review.</b></p>	<p>LAAP agreed to establish a sub group to examine the issue. The Group met on 22 February 2013. The Group agreed its draft terms of reference which it will send to LAAP for approval.</p>

<sup>1</sup> Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes For Practitioners 2011/2012 Accounts (the 2012/13 edition is now available)

<sup>2</sup> Componentisation of Property, Plant & Equipment under the 2010/11 IFRS-based Code – June 2010

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<b>2. Property, Plant and Equipment: Recognition</b>		
<p>The review process has identified that the paragraphs on property, plant and equipment recognition use the term "enhancement" in a way that is not used in IAS 16. This may have caused some confusion for practitioners used to applying the SORP, where enhancement was a defined criterion for capitalisation.</p>	<p>The Post Implementation Review Group recommended that references to enhancement be removed and the consultation on the 2013/14 Code proposes the removal of this term in Section 4.1 of the Code.</p> <p>The amendments to the Code contain proposed minor clarifications that serve to align the Code more closely to the provisions of IAS 16 which does not refer to enhancements or restoration in the same way.</p> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses.</b></p>	<p>Included in the 2013/14 Code which awaits final approval from LASAAC and the Chair of PFMB.</p>
<b>3. Property Plant and Equipment: Measurement</b>		
<p>The issue was raised that there has not been a complete understanding of the requirements of the Code as it adopts IAS 16 in relation to frequency of revaluations. There was anecdotal evidence of some misunderstandings on the application of the measurement requirements of the Code where rolling programmes of valuations might</p>	<p>The Post Implementation Review Group recommended appropriate clarification to the Code requirements.</p> <p>Additional clarification has therefore been proposed, in the consultation on the 2013/14 Code, to paragraph 4.1.2.35 which clarifies that authorities need to ensure that the asset valuations are materially accurate at the balance sheet date. Clarification has also been added to the paragraph to clarify the treatment of any rolling programmes of valuations of fixed assets.</p>	<p>Included in the 2013/14 Code which awaits final approval from LASAAC and the Chair of PFMB.</p>

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<p>have provided indications of material differences in valuations.</p>	<p>Both these clarifications have been based directly on the provisions of IAS 16. In order to support this clarification the process of formal valuations has also been clarified.</p> <p>A minor clarification of the requirements relating to decreases in the carrying amount of an item of property, plant and equipment in relation to paragraph 4.1.2.34 of the Code has been removed from this paragraph as the qualifying commentary about the non-specific nature of a revaluation decrease is not directly supported by the standard.</p> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses.</b></p>	
<p><b>4. Leases and Lease Type Arrangements</b></p>		
<p>The Post Implementation Review Group is aware that some authorities are having difficulties in the interpretation of issues at the inception of a lease or when there are changes in the terms of a lease.</p>	<p>The Post Implementation Review Group recommended some clarification be made in the Code to assist practitioners on this issue. Therefore a number of minor clarifications have been included in the consultation on the 2013/14 Code to Section 4.2 Leases and Lease Type Arrangements of the Code which follow the Code's adoption of IAS 17 <i>Leases</i>. The following changes have been proposed:</p> <ul style="list-style-type: none"> <li>• Definitions of the inception of the lease, the commencement of the lease term and the lease-term have been added at paragraphs</li> </ul>	<p>Included in the 2013/14 Code which awaits final approval from LASAAC and the Chair of PFMB.</p>

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	<p>4.2.2.4 – 4.2.2.6.</p> <ul style="list-style-type: none"> <li>• A new paragraph on the classification of leases has been added at 4.2.2.9.</li> <li>• Minor clarification of the wording of paragraph 4.2.2.13 has been added which relates to changes in lease terms – note that this is not a substantial change.</li> </ul> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses.</b></p>	
<b>5. Non Commercial Leases</b>		
<p>The Post Implementation Review Group identified that the Code did not assist practitioners where no premium is paid but lease rentals and payments are at a peppercorn ie for non-commercial arrangements. The PIR Group considered that this was a particularly public sector issue.</p>	<p>The Post Implementation Review Group recommended to CIPFA/LASAAC that the Code includes an additional commentary which indicates that the assessment of lease classification of assets transferred to another entity where no lease premium is paid but on the basis of a peppercorn rent would exclude the assessment of the present value of the minimum lease payments being at least substantially all of the fair value of a leased asset.</p> <p>This proposed amendment is included in the consultation on the 2013/14 Code.</p> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses.</b></p>	<p>Included in the 2013/14 Code which awaits final approval from LASAAC and the Chair of PFMB</p>

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<b>6. Lease and Lease Type Arrangements: Detailed Application Guidance</b>		
<p>The Code and IAS 17 <i>Leases</i> do not address the issue of lease cancellation in any detail. The review group considered that this issue extended to PFI and PPP contract cancellation.</p>	<p>The Post Implementation Review Group recommended that this area be subject to a review for additional application guidance.</p> <p><b>Current position: The current 2012/13 Code Guidance Notes have been reviewed and augmented. However, issues relating to lease cancellation need to be considered against the provisions of the Capital Finance Regulations and with discussions with the relevant administrations, this in the process of being taken forward by CIPFA Secretariat. The issue of PFI/PPP cancellation is being considered by LAAP.</b></p>	<p>LAAP have not found any evidence for issues relating to lease cancellation and therefore have not proceeded with any further application guidance at this juncture.</p>
<b>7. Non-Current Assets Held for Sale</b>		
<p>The Post Implementation Review Group considered that there was some evidence that the Code's provisions were not clearly understood here. The Code establishes four specific criteria which must be met before an asset can be classified as being held for sale arguably gives these requirements greater weight than in IFRS 5 <i>Non-Current Assets Held for Sale and Discontinued</i></p>	<p>The Post Implementation Review Group has recommended that the wording of the provisions of the Code be brought closer to that of the Standard. This proposed amendment has been included in the 2013/14 Code consultation. It is likely that this is a matter of emphasis only.</p> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses.</b></p>	<p>Included in the 2013/14 Code which awaits final approval from LASAAC and the Chair of PFMB</p>

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<i>Operations.</i>		
<b>8. Government and Non- Government Grants</b>		
<p>Currently, the Code does not require separate identification of restricted balances of unspent revenue grant but the application guidance recommends that where conditions have been met or there are no conditions such grants should be held in earmarked reserves (or an earmarked portion of General Fund in Scotland) until the money is applied to the purposes of the grant. As these balances can only be applied for the purposes of the grant and/or in specified financial years and are likely to be subject to grant restrictions, it would be inappropriate that these balances are included in the general fund as if they were balances available for general use.</p>	<p>The Post Implementation Review Group recommended that CIPFA/LASAAC mandate the approach that is currently recommended in application guidance ie to create an Earmarked Reserve, or, an earmarked portion of the General Fund in Scotland, to hold the resources until they are applied to the purposes in relation to the restrictions on the grant.</p> <p>On consideration of this recommendation the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) considered that it would opt to encourage this approach in the consultation on the 2013/14 Code.</p> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses.</b></p>	<b>Action Complete</b>
<b>9. Government and Non- Government Grants - Application Issues</b>		
The Post Implementation Review Group considered that it	The Post Implementation Review Group recommended that additional application	LAAP are content with their guidance in relation to grants. However, CIPFA Secretariat will include this in the review

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<p>appeared that there was still confusion about the use of the term “condition” as defined by the Code in relation to accounting for government and non-government grants.</p>	<p>guidance be added to confirm that the definition of a condition in the Code might differ from the traditional grant conditions included in grant documentation and from generally understood references to conditions.</p> <p>It should be noted that there is extensive guidance in the 2011/12 Code Guidance Notes (this guidance had been previously included in the year end LAAP Bulletin). In addition CIPFA included significant detail on this issue in countrywide training events on IFRS implementation. However, in order to re-emphasise this issue, new examples will be included in the 2012/13 year-end LAAP Bulletin and subsequently in the 2013/14 Guidance Notes.</p> <p><b>Current position: New examples will be included in the year end LAAP Bulletin and the 2013/14 Guidance Notes.</b></p>	<p>process of the relevant application guidance in Module 2 Section C of the 2013/14 Code Guidance Notes.</p>
<p><b>10. References to Exceptional Items in the Code</b></p>		
<p>The Post Implementation Review Group recommended that references to exceptional items should be removed from this requirement as the term “exceptional items” is not used in IFRS.</p>	<p>The term exceptional items are included in the accounting policies note and in HRA disclosures. The recommendation to remove references to the term “exceptional items” was included in the proposed amendments in the 2013/14 Code consultation.</p> <p><b>Current position: The proposed amendments to the Code will be evaluated as a part of</b></p>	<p>Included in the 2013/14 Code which awaits final approval from LASAAC and the Chair of PFMB.</p>



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	the 2013/14 Code consultation responses.	
<b>11. Segmental Reporting Note</b>		
<p>A respondent to the consultation noted that the segmental reporting requirements in the Code are complex to complete. This has been supported by anecdotal feedback indicating that although the Code sets out that this disclosure should not be onerous that experience has found that it is.</p>	<p>The Post Implementation Review Group recommended that good practice be sought from local authority practitioners and this be included in suitable application guidance.</p> <p><b>Current position: being considered by LAAP.</b></p>	<p>Being considered by LAAP.</p>
<b>12. Joint Committees and Other Forms of Co-operative Arrangements</b>		
<p>The issue of the accounting requirements for Joint Committees was raised in response to the consultation questions included in the ITC for the 2012/13 Code and has been considered by CIPFA/LASAAC on a number of occasions.</p>	<p>The Post Implementation Review Group recommended that there be a review of the application guidance needed for Joint Committees and other forms of co-operative arrangements.</p> <p>The provisions of the 2012/13 Code Guidance Notes were reviewed and augmented by LAAP in relation to Joint Committees and Other Forms of Co-Operative Arrangements. However, more detailed application guidance can only be provided following identification of the issues causing practitioners difficulty. It is therefore recommended that further evidence is needed for this. In order to obtain such evidence, the CIPFA</p>	<p>The Panel has noted that it was uncertain that it could offer more guidance on this particular issue, as the accounting treatment is normally dependent on the circumstances in each case. It noted that this issue was still proving to be problematic. Some issues that have been identified by the FAN workshops on partnership arrangements will be considered by LAAP.</p>

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	<p>Finance Advisory Network (FAN) Workshops on Shared Services are canvassing delegates' views on the types of accounting issues causing practitioners difficulty.</p> <p><b>Current position: The way forward is currently being considered by LAAP and will be updated when evidence has been received from the above mentioned CIPFA (FAN) Workshops.</b></p>	
<b>13. Valuations of Council Houses</b>		
<p>The Code is clear that the measurement of Council Houses should be at EUV-SH. There are two methods used by valuers for arriving at this valuation. It was noted that in practice different valuations arise from the use of different methodologies.</p>	<p>The Post Implementation Review Group considered that this was an issue that should be discussed in more detail with the Public Sector Valuation Group (PSVG).</p> <p><b>Current position: CIPFA Secretariat to discuss with PSVG. Note that this issue has already been the subject of discussions.</b></p>	<p>This issue is under consideration by CIPFA Secretariat.</p>
<b>14. Complete Set of Financial Statements</b>		
<p>The Post Implementation Review Group considered a number of specific issues (see main body of the report) relating to a complete set of financial statement but it considers that at this juncture</p>	<p>The Post Implementation Review Group is aware that the Code Guidance Notes considers alternative examples of statements and disclosures. LAAP may wish to consider whether there are any areas of good practice that might be disseminated.</p>	<p>Review of the financial statements to follow the closure of the 2012/13 accounts.</p>

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<p>no further changes be considered to these statements and instead that resources be channelled into finding good practice examples of these statements and disseminating this via application guidance.</p>	<p>This is a part of the normal update process for the Code Guidance Notes and more good practice examples have been added to the 2012/13 edition.</p> <p><b>Current position: Good practice guidance on the presentation of the financial statements is under regular review by LAAP.</b></p>	