CIPFA The Chartered Institute of Public Finance & Accountancy

report

CL 9 11-13(a)

Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Scotland Offices, Edinburgh
Date	12 November 2013
Author	Sarah Sheen, CIPFA Technical Manager, Local Government Financial Reporting
Subject	Analysis of Responses to Consultation on 2014/15 Code

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Purpose

To report on the responses to the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom

1 Introduction

1.1 In total there were 53 responses (listed at Appendix A) to the public consultation on the draft 2014/15 Code.

1.2 The responses received are summarised in Appendix B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. As there are a number of questions only the significant issues of principles are included in the body of this report. The statistical analysis of all the responses and individual comments are included in Appendix B. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Draft of the Code.

1.3 It should be noted that five of the respondents, highlighted in grey only responded to the adoption of the measurement requirements of *the Code of Practice on Transport Infrastructure Assets*. These responses have therefore not been included in the statistical analysis. More information on these responses has been included in report CL 10 11 13.

1.4 Copies of the responses received will be made available to Board members electronically on request. Please note that a significant number of the responses included their authority or entity confidentiality disclaimer. Therefore the names of the interested parties responding to the consultation will need to remain confidential to the Board and the body of the report does not refer to the individual entities with the exception of the respondents referred to above.

1.5 The drafts of the 2014/15 Code are held as Code Draft (CD) files and follow the format of the Exposure Drafts. For ease of sending to Members these Drafts have been collated at the end of the CIPFA/LASAAC papers. This is includes the CD

Minor Amendments which comprises very brief extracts of the amendments, which have not needed to be subject to the consultation process.

2 Summary of Responses

2.1 Responses to the consultation are summarised below and presented in more detail in Appendix B.

IFRS 13 Fair Value Measurement

2.2 The responses are summarised in Appendix B to this report and CIPFA/LASAAC Members are invited to consider the Appendix. Board Members will note there was some significant support for the consultation proposals. However, at the October Government's Financial Reporting Advisory Board (FRAB) meeting, there was further debate about the conceptual approach to the adoption of IFRS 13 *Fair Value Measurement*. A presentation report on a possible conceptual approach to the adoption of IFRS 13 will follow the main set of the CIPFA/LASAAC papers. The conceptual approach will need to be considered by CIPFA/LASAAC and FRAB. Detailed changes to the Code can only to be discussed once the conceptual approach is agreed.

2.3 FRAB has also considered the possibility that a further delay may be needed for implementation of IFRS 13, in large part due to the timescales required for any remeasurements. If this delay is supported by CIPFA/LASAAC the Secretariat would recommend that the 2014/15 Code includes appropriate recommendations to ensure that a clear signal is provided by the Board allowing local authorities appropriate time for development and preparations.

2.4 This delay may also be important as a transitional approach to the adoption of IFRS 13 to property, plant and equipment, as (it is likely that) some local authority assets will require remeasurement. A number of the audit bodies and the firms indicated serious misgivings about the use of a "Directors' Valuation" for these remeasurements.

CIPFA/LASAAC is invited to consider the concepts paper on IFRS 13 and give its views on a conceptual approach to implementation.

Group Accounts Standards

2.5 The consultation responses supported the overall approach to the adoption of the Group Accounts Standards to Chapter Nine *Group Accounts* of the Code. There were very few opposing comments. This section of the ITC included five questions. The most significant additional changes or issues arising from the responses to each of these questions are highlighted below.

Definitions included in the Group Accounts Standards

2.6 One authority considered that the new definition of joint control would now exclude most local authority partnerships or other joint bodies. It concluded the Code would therefore not include prescriptions for these types of bodies. It is not clear why this new definition of joint control results in the exclusion referred to be the respondent. The Secretariat would not recommend changing the definition of joint control from that provided by IFRS 11. However, the Secretariat will investigate this issue with the authority in question in the development of application guidance on the introduction of the new standards.

2.7 Some additional points of detail were raised by a respondent in relation to the definitions part of Chapter Nine – see Appendix B. The Secretariat did not consider it necessary to make any further changes to the definitions.

2.8 The Secretariat has added the definition of a decision-maker (from IFRS 10) into the definitions section of Chapter Nine. This is important in the consideration of whether an authority is acting as principal or agent and has been an issue raised in the debates about accounting for schools.

IFRS 10 *Consolidated Financial Statements*

2.9 One of the firms commented "*we think that the Code should expand on the requirement to determine the relevant activities of the entity. This is because in situations where the investee is undertaking more than one activity – simultaneously or over time – it may require significant judgement as to what the relevant activities are*". The Secretariat concurs with this (again following the application issues considered in the accounting for schools debates) and has therefore added paragraphs 9.1.2.32 and 9.1.2.33 to the draft provisions of the 2014/15 Code.

2.10 The same firm raised the issue of the transition guidance. It commented on which versions of IFRS 3 and IAS 27 to apply to previous transactions if consolidation decisions change. The Secretariat agrees with the firm that the previous IFRS versions of the Code have only ever incorporated the 2008 versions of IFRS 3 and IAS 27 and therefore has amended paragraph 9.1.2.68 of the Code to reflect this.

2.11 The Secretariat has also made a minor amendment to paragraph 9.1.2.34 to clarify that payments made for services on commercial terms are not the returns under the standard as described by 9.1.2.34 (d). This change was not strictly necessary but was included for the avoidance of doubt.

IFRS 11 *Joint Arrangements*

2.12 A firm highlighted a concern on the impact of the new standard. The new classification principles of IFRS 11 may lead to entities that are currently accounted for as jointly controlled entities being instead accounted for as joint operations (although the Secretariat is not clear how likely this is as this was not raised by other respondents). This would require a move from recognising the investment in the jointly controlled entity in the local authority single entity accounts to recognising the authority's share of its assets and liabilities in the single entity accounts. However, if this were necessary this should only mean a disaggregation of the investment into the share of its assets, liabilities, income and expenses. As this does not impact on an authority's underlying need to borrow, this will not impact on the capital financing requirement of the authority and the Prudential Code allows authorities to make appropriate adjustment for this. The Secretariat does not therefore consider that any further transitional provisions will be required in the 2014/15 Code for this.

IFRS 12 *Disclosure of Interests in Other Entities*

2.13 One of the firms identified a potential clarification to paragraph 9.1.4.21 b)i), setting out that this paragraph should be amended to make it clear that fair value is only appropriate in the single entity (separate) financial statements prepared by a local authority. However, the ED follows the provisions in the Standard. IFRS 12 is concerned about whether entities have applied the exemption in IAS 28 not to use the equity method. As it is unlikely that the exemption could be applied to local authorities, it may be appropriate not to include this disclosure. Use of the equity method would then be included in the summary of significant accounting policies. Alternatively, as the note reports the factual situation and does not have any effect on the accounting policies used it may be appropriate to retain at this current juncture.

CIPFA/LASAAC is invited to consider whether it wants to retain the disclosure at paragraph 9.1.4.21 b)i).

2.14 A number of the authorities raised concerns about the additional disclosures required on unconsolidated structured entities, raising issues of the impact on clutter in local authority financial statements and the potential impact of grant funding local authorities provide to other entities. CIPFA/LASAAC has already considered these issues and decided not to amend the provisions in the Code on the Standard. No significant evidence, additional to that considered previously by the Board, has been put forward that would suggest that a different treatment would be needed.

CIPFA/LASAAC is invited to approve the draft of the 2014/15 Code in relation to the introduction of the new Group Accounts standards (ref CD 2).

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

2.15 There were no issues identified that required further amendment to the Code and the majority of respondents were supportive of the approach in the ED. Application guidance will be provided by CIPFA on this issue.

CIPFA/LASAAC is invited to approve the draft of the 2014/15 Code in relation to *IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (ref CD 3).

Annual Improvements to IFRSs 2009 – 2011 Cycle

2.16 The main comments to the Exposure Draft indicated that the cross references to the amendments to IAS 1 *Presentation of Financial Statements* should be explicitly included in the Code. In accordance with the recommendations of the CIPFA/LASAAC review (ie to only include significant provisions in the Code) this has not been done. However, CIPFA/LASAAC's views are sought on this issue.

CIPFA/LASAAC is invited to approve the draft of the 2014/15 Code in relation to *Annual Improvements to IFRSs 2009 – 2011 Cycle* (ref CD 4).

Complete List of Financial Statements

2.17 One firm suggested that the reference to statutory statements should use the same terminology as the Accounts and Audit (England) Regulations 2011. Other respondents were concerned that the proposals gave a different status to the statutory statements and were of the view they had previously been considered as supplementary statements.

2.18 The Secretariat has followed the approach of the Accounts and Audit regulations but not the precise text. The IAS 1 *Presentation of Financial Statements* complete list of financial statements does not identify primary and supplementary statements. However, to support the spirit of the respondent's comment on supplementary statements the statutory reporting requirements have been moved to the end of the complete list of financial statements.

CIPFA/LASAAC is invited to approve the draft of the 2014/15 Code as it relates complete set of financial statements (ref CD 4).

Local Government Reorganisations and Other Combinations – Clarification of the Code's Requirements and Alignment with Other Public Sector Bodies

2.19 One of firms raised the issue of the introduction of merger accounting requirements in section 2.5 and indicated that transfer by absorption was not merger accounting. The Code, paragraph 9.1.1.8, already indicates that for public sector combinations merger accounting was permitted and a number of reorganising bodies have used these for recent combinations. This treatment featured in LAAP Bulletin 95 *Accounting for the Impact of Police Reform - the Accounting Arrangements for the Transfer of Functions to the Police and Crime Commissioner (England and Wales).* The ED of the Code used to reference of principles of merger accounting as that was how the Code previously described these transactions and the accounting treatment for such transfers and did not prescribe acquisition accounting. However, to avoid debate the accounting treatment for transfers by absorption no longer refers to the principles of merger accounting but to the treatment previously prescribed by the Code.

2.20 The same respondent and a further respondent also requested that the Code include criteria for the use of merger accounting. The Secretariat has not added these specifications but has instead set out the principles that must be met for the transactions to be treated as merger accounting. Additional clarification has been included in the draft 2014/15 Code to indicate that these situations will be rare. CIPFA/LASAAC is invited to consider whether it wants criteria to be developed for the use of full merger accounting. However, there are no pronouncements in GAAP that will enable differentiation between transfers by merger and transfers by absorption.

Transfers of Functions – Academies

2.21 One firm raised concerns in relation to the treatment in local authority financial statements of an academy conversion. This is an issue on the development programme of CIPFA/LASAAC and its Working Party Accounting for Schools but its consideration needs to follow the resolution of the accounting for schools issue.

CIPFA/LASAAC is invited to note the issue.

Gains or Losses on Transfer

2.22 Three respondents suggested that the provisions in the Code should align with those of the FReM ie any gains or losses should be recognised as an operating gain or loss. There are arguments for a transfer to be recognised as an operating expense as the authority might make gains or losses as a result of such a change. The Secretariat would highlight that recent application of the FReM's provisions has resulted in an agreement not to recognise the gains in such a way. It is also arguable that such gains or losses do not arise as a result of the (operating) performance of the authority. The Secretariat would currently not recommend any changes.

CIPFA/LASAAC's views are sought on the approach to such gains or losses. Subject to these views the Board is invited to approve the provisions of the amended section 2.5 of the draft of the 2014/15 Code on Local Government Reorganisations and Other Combinations (ref CD 5).

Pension Fund Financial Statements in Scotland – Statement on the System of Internal Financial Control

2.23 One respondent, an audit body disagreed with the approach in the Exposure Draft of the Code – it did not consider it necessary or appropriate for a governance compliance statement to meet the reporting requirements for a Statement on the System of Internal Financial Control (SSIFC). It commented that the SSIFC is designed to apply to the controls of an entity. It was of the view that the key governance aspect of the pension fund is the operation of the pension committee.

2.24 The Secretariat concurs that the governance compliance statement is not designed to include the requirements of a SSIFC. However, even though a SSIFC was designed to apply to the controls of an entity there are elements of a SSIFC that are likely to apply to the pension fund. There are, for example, assurances on the provision of financial information that would be important to the user of the pension fund annual statements. Section 6.5 *Accounting and Reporting by Pension Funds* relies on other sections of the Code for its reporting requirements. Therefore where the pension fund financial statements are provided separately application of the requirements of Section 6.5 of the Code would anticipate that the relevant application of a SSIFC would apply and therefore the relevant parts of a SSIFC could be provided with the pension fund financial statements.

2.25 The Code has been amended to reflect the need to include the relevant application of Section 3.7 with the pension fund financial statements in Scotland.

CIPFA/LASAAC's views are sought on this approach and the new wording in paragraph 6.5.5.2 in the draft of the 2014/15 Code (ref CD 6).

True and Fair View

2.26 There were two suggestions in relation to the changes to the references to a "true and fair" view – see Appendix B. The Secretariat has tailored the approach in Chapters One, Two and Three of the Code, as necessary. Chapters One *Introduction* and Two *Concepts* and *Principles* harmonise the references to the regulatory requirement for a "true and fair" view and the requirements of IFRS. Sections 3.2 Statement of Responsibilities, 3.7 *Statements Reporting Reviews of Internal Controls or Internal Financial Controls* and 3.8 *Events after the Reporting Period* retain the regulatory references to "true and fair" whilst section 3.4 *Presentation of Financial Statements* uses the same terminology as IAS 1.

CIPFA/LASAAC is invited approve the amendments relating to a "true and fair" view in the Code. These are included in the extracts for minor amendments to the draft 2014/15 Code (ref CD Minor Extracts).

Appendix C to the Code

2.27 No issues of substance were raised. A number of authorities requested guidance on application issues. These are included in application guidance issued by CIPFA. This Appendix will need to be amended for any changes in relation to IFRS 13 and the measurement of transport infrastructure assets.

CIPFA/LASAAC is invited to approve Appendix C subject to any further amendments required for IFRS 13 or Transport Infrastructure Assets – (ref CD 8).

Other issues relating to standards and legislation

2.28 None of the issues identified by respondents currently require amendment to the 2014/15 Code.

Movement in Reserves Statement

2.29 The Secretariat would highlight the significant positive support for the statement represented by the statistics and many of the comments. It would recommend that these comments are prioritised in the review of the financial statements to be undertaken by the post implementation review group following the close of the 2012/13 year.

CIPFA/LASAAC is invited to note the comments on the Movement in Reserves Statement.

Other Issues Arising from the Consultation Responses (Question 26)

2.30 As is normal process the ITC seeks respondents' views on other issues. The items of substance raised are listed in Appendix C. None of the issues required additional amendment to the 2014/15 Code. A significant number will require referral to Local Authority Accounting Panel (LAAP).

General Comments Made

2.31 In addition to the responses in relation to question 26 and at other points in their response, two respondents raised other issues in relation to the Code. An audit body and a firm raised the issue of the Code's consultation on schools and both encouraged CIPFA/LASAAC to resolve the issue as soon as possible – the schools issue is considered elsewhere on the agenda.

CIPFA/LASAAC is invited to confirm its agreement to the approach to the issues listed in Appendix C (of this report) and the issues it requires to be referred to the LAAP.

2.32 One of the firms raised the issue of the format of the Code suggesting that it was difficult for the Code to be comprehensive in its adoption of financial reporting standards and noted instances where the adoption of the Code changed the emphasis of the standard. The firm therefore suggested that the Code moved towards the FReM style approach. The CIPFA/LASAAC Review has considered this issue and has considered that it wishes more of a principles based approach to be adopted. The recent changes of the Code have attempted to emulate this as much as possible.

CIPFA/LASAAC is invited to note this comment.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

2.33 The ITC indicated that the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is under review. It also recognised that the accounting provisions under the Scheme are also therefore under review. CIPFA/LASAAC Members will be aware that the 2013/14 Code's provisions allow for any allowances to be held to be treated either as current intangible assets or, in the rare circumstances where authorities may decide to trade in the allowances, as inventory items.

2.34 It appears that the provisions for the sale of allowances for the Scheme under Phase 2 could result in some authorities holding allowances for longer than 12 months and thus may mean that these assets will meet the definition of a non-current asset. The Secretariat understands that there may be further guidance from the Environment Agency this Autumn. Before making any further amendment to the Code it is suggested that the Secretariat considers this guidance. If the asset meets the definition of a non-current asset then the CIPFA Secretariat will need to consider the issue with each of the devolved administrations. The Secretariat is also discussing this issue with HM Treasury.

CIPFA/LASAAC is invited to note this issue.

Draft 2014/15 Code

2.34 In addition to the above issues, further changes will need to be made to the 2014/15 Code to bring it up to date, as follows:

- At the end of each section, there are currently a number of paragraphs outlining the changes since the published 2013/14 Code.

  - Where the requirements have changed between the 2013/14 Code and the 2014/15 Code, these paragraphs have been updated as part of the redrafting process.

- A number of minor and typographical amendments identified as a result of the consultation process will be corrected by the Secretariat.

- A number of minor amendments identified by the Secretariat during the drafting of the Code Guidance Notes have also been corrected (these amendments have been listed at Appendix D.

2.35 It will also be necessary to include appropriate prescriptions for IFRS 13 in the 2014/15 Code following the debate on the conceptual approach to the adoption of this Standard.

2.36 It is proposed that once all these changes, and changes arising out of CIPFA/LASAAC decisions, have been made, a complete draft of the Code (with changes in mark-up) will be circulated for final approval.

Recommendations

The Board is invited to consider the individual issues brought to its attention above and consider for approval the 2014/15 Code.

Appendix A

List of Respondents

Argyll and Bute Council	Barrow Borough Council	Calderdale Metropolitan Borough Council
Conwy Borough Council	Daventry District Council	Devon County Council
Ealing Council	East Dunbartonshire Council	East Riding of Yorkshire Council
Guildford Borough Council	Hampshire County Council	Hertfordshire County Council Draft Response
Inverclyde Council	Kent County Council	Lancashire County Council
Leeds City Council	Leicestershire County Council	London Borough of Barnet
London Borough of Bexley	London Borough of Camden	London Borough of Hackney
London Borough of Hounslow	Metropolitan Police Service	North Ayrshire Council
Oxford City Council	Oxfordshire County Council	Sheffield City Council
Somerset County Council	South Lanarkshire Council	Stockport Metropolitan Borough Council
Sunderland City Council	Surrey County Council	Torfaen County Borough Council
Wakefield MDC	Warrington Borough Council	Department for Transport
Audit Commission	Audit Scotland	BDO LLP
Deloitte	Ernst and Young	Grant Thornton UK LLP
KPMG	Mazars	National Audit Office
pwc	Wales Audit Office	Highway Asset Management Financial Information Group
Atkins	Strathclyde Partnership for Transport	Arlingclose Limited
Passenger Transport Executive	Confidential	

SUMMARY OF CONSULTATION RESPONSES

IFRS 13 Fair Value Measurement

Note – a group of interested parties are best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to firm or "firms"

Statistical Analysis of Responses

Question		Agree	Disagree	No Comment
1	Do you agree with the proposed amendments to the Code arising from the adoption of IFRS 13? If not, why not? What alternatives do you suggest?	32 (67%)	3 (6%)	13 (27%)
2	Do you agree with the proposed adaptation for property, plant and equipment in sections 2.10 and 4.1 of the Code? If not, why not? What alternatives do you suggest??	30 (62%)	7 (15%)	11 (23%)
		Appropri ate	Not Appropriate	No Comment
4	Do you consider that the disclosures in IFRS 13 (ie those disclosures relating to measurements of assets or liabilities where there are unobservable inputs see paragraphs 2.10.4.1 3) e) to h)) are appropriate for the users of local authority financial statements? If you consider that the disclosures are inappropriate do sufficient differences exist between the users of local authority financial statements and the users of private sector entities to warrant an adaptation to the Code for the disclosures? If so, what form should such an adaptation take?	11 (23%)	20 (42%)	17 (35%)

Comments and Responses

Issue	**Secretariat Response**
Question 1 – Agree with the Proposed Amendments re IFRS 13	
A number of the respondents to the proposal indicated that:	See the principles in the consultation paper and particularly Appendix A.

Issue	**Secretariat Response**
▪ they agree with the response set out in the consultation papers – ie Appendix A to the Invitation to Comment (ITC). ▪ it sets out a clear, consistent methodology ▪ perhaps ought to include a rebuttable presumption basis. ▪ agree in principle but wary of resource constraints of changes. ▪ commenting otherwise would not indicate the "true wealth or reflect the usable information to the users of the accounts". ▪ four of the firms specifically agreed or agreed with the "broad principles" of the approach.	Also see Section 2 of the Report. It is likely that there will need to be specific application guidance on this issue and the Code itself is likely to need to include the principles of application guidance.
An audit body commented that for consistency with FReM there is no need for adaptation. It followed that it considered that the users of the accounts should be aware of the highest and best use value of PPE. There is a limited range of assets in local government where use is either limited by geography (roads, bridges, flood defences etc) or by specialism i.e. there is not ready access to an open market to trade in. However, in these cases the standard already allows for designation as a specialist asset and to be valued accordingly.	CIPFA/LASAAC has previously promoted an approach which is consistent with the FReM. The consultation papers were developed in conjunction with HM Treasury. There are assets that are constrained by geography eg housing offices and community centres. The access to the open market is not the rationale for the adaptation; it is that due to service constraints the authority cannot access the economic benefits required by a "highest and best use" measurement.
A firm commented that the Code should follow the principles of IFRS 13 as closely as possible, commenting that it was "important that there is a common application of fair value by all bodies preparing accounts under IFRS". It commented that it "found the references in the Code consultation document to the adoption of "routes" unhelpful. In our view this risks confusion with "input levels" that are important within IFRS 13 and which are referred to in ED1." The same firm considered that following the	CIPFA/LASAAC has already debated the principles of adopting the requirements of the standard. It has considered the application to public sector entities. The Secretariat considers that it is more important to measure the assets in accordance with the needs of local authority users of accounts thus ensuring a common application. However, where possible the Secretariat concur that public sector application

<table>
<tr><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td>standard and its definition of best value:
provides information on the stewardship function
would be helpful to public sector bodies considering reconfiguring their services and streamlining their asset base.
The firm commented that:

“As a general principle we consider that local authorities should follow the requirements of the HMT Financial Reporting Manual (HMT FReM) and should not seek to introduce further restrictions on the application of individual accounting standards…”</td><td>in the UK should be consistent.

The application description in the Appendix to the ITC was attempting to describe the process of deciding the measurement objective and not the inputs to the valuation technique. However, in any application guidance the Secretariat will strive to avoid any such confusion.

Measurement at a fair value valuation which is limited to existing use would still provide information that is useful for the stewardship function. However, it is recognised that a measurement at highest and best use is also useful to the users of local authority accounts.</td></tr>
<tr><td>An audit body considered that the consultation papers assumed that local authorities could not access the economic benefits inherent in a highest and best use scenario. It considered that this was not the case because there is often a market for such assets in alternative use. It added that:

“The fact that a local authority requires assets in a particular geographical area to deliver a service does not in our opinion preclude them from valuing them on the basis highest and best use’. “

It commented that:

“We recognise however that notwithstanding our comments above, Paragraph 2.10.20 of the proposed code as contained in ED1 effectively adapts the requirements of IFRS 13 so that non-current assets subject to service prescriptions and / or geographical constraints result are valued at current or existing use.“

…

“To minimise the possibility of inconsistencies in the interpretation of these terms, the Code</td><td>The consultation papers did not contend that there were not alternative markets in the case of the route 2 or the adaptation in route 3. Instead in relation to route 2 market participants were unable to assess whether it was legally permissible to access the most economically advantageous market due to the legal restrictions on the in use assets.

The option under the adaptation (route 3) particularly did not consider that the authority could not access the market. The adaptation contended that due to geographical or service constraints authorities the authority would not be able to access the market.

The Secretariat considers that the application of the routes set out in Appendix to the ITC would require judgement which might mean inconsistent approaches which it would seek to minimise with</td></tr>
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Issue	**Secretariat Response**
should recognise that, with certain exceptions, local authorities hold assets to deliver public services, not to realise future cash flows. The Code should adapt IFRS13's requirements to reflect the circumstances of the public sector and specify that non-current assets used to deliver public services be valued on the basis of remaining service potential (EUV)." It also offered an alternative approach ie to require all non-current assets to be valued using two bases: ▪ Open Market Value; and ▪ Market Value for Existing Use.	appropriate application guidance. The Secretariat does consider that both a measurement in highest and best use and existing use provides useful information to the users of local authority financial statements. However, providing two sets of information would increase the reporting burden on local authorities.
Question 2 – Agree/Disagree with the Adaptation	
An audit body and a firm (the firm agreeing that it is broadly content) consider that an adaptation is not required for route 3 (geographically restricted assets in current use). Both bodies consider that such restrictions would be picked up in the valuations "as a part of the open market valuation".	In theory it is correct that many types of the geographical and service constraints would have been picked up in the specifications of route 2. The consultation paper acknowledged this. Also the text for geographical and service constraints was drafted on a basis of having limited or no choice but to continue to provide services via property assets in a particular location. The test given in the consultation papers was therefore wider than that required by IFRS 13.
A firm commented that it: ▪ required clarification in circumstances where existing use valuations can be used for non-specialist assets used to deliver services. ▪ concurs that if there is a statutory restriction this would effectively mean no access to a free market that could be used to derive a fair value for the asset. This might be treated as a specialist asset valued at the cost of replacing the service potential. ▪ where the determination is by the entity	See comments above. Heritage assets were not specifically excluded from the scope of the standard because IFRS 13 only applies where a standard already applies fair value. Section 4.10 of the Code requires that Heritage Assets are measured at valuation and not fair value and therefore IFRS 13 would not apply to these measurements.

<table>
<tr><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td>itself it does not consider that there is a case for adaptation.
agrees with the exclusion of Heritage assets but considers it should however be recorded as a formal adaptation to exclude these assets from the scope of IFRS 13.</td><td></td></tr>
<tr><td>A firm commented “We agree with the proposed amendment however:

“… we believe it would be helpful for practitioners if further explanation was included within the Code regarding what is meant by 'service prescriptions or geographical constraints'. This could be achieved by incorporating some of the guidance contained in ITC Appendix A into either Chapter 2 or 4 of the Code.

A number of authorities that supported the adaptation requested further clarification of the service prescriptions or geographical constraints.</td><td>The Secretariat concurs that it is likely that further application guidance is needed to assist local authorities to measure assets in accordance with the standard. It may also be necessary to include some high level principles of the application guidance in an Appendix to the Code.</td></tr>
<tr><td>An audit body raised issues of clarification in relation to the adaptation and suggested that references to a Directors’ Valuation should also refer to this being instead of a formal revaluation.</td><td>See above for clarification issues.

See below for the Directors Valuation.</td></tr>
<tr><td>Use of the Directors’ Valuation

Most of the firms and the audit bodies commented on the use of the directors’ valuation. Comments included:
any change to the basis of valuation should be performed to appropriate professional standards.
this may be achieved by a directors' report if authorities can demonstrate that this is a reasonable basis. The Code therefore does not need to specify a time period to apply the use of a directors' valuation as this could be used at any time.
directors' valuations may be appropriate in between periodic professional valuations. However, given the judgements required it would be inappropriate to rely on directors'</td><td>The comments made by the audit bodies and the firms are very important in understanding the viability of the use of the “Directors’ Valuation” in the proposals for the adoption of IFRS 13. As noted in previous reports this was first suggested by the Chair of FRAB. The proposal was intended to minimise the cost of applying the new standard.

A number of the responses do not consider that this adaptation was necessary. However, this was intended to give authorities a level of assurance that a formal revaluation was not required for the specified transition period.</td></tr>
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<tr><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td>valuations rather than professional (RICS based) assessments. Such an approach would lead to significant audit issues and potential for qualified opinions re lack of sufficient audit evidence… If there is a risk that PPE asset values may be misstated then a revaluation should be undertaken. If balances are material, auditors will need to assess how robust the valuations are and may need to commission their own independent valuation, passing the costs of such on in the form of increased fees.

▪ we believe a qualified valuer is the most appropriate person to provide a reliable value for inclusion in the accounts and that this would not be a significant burden for local authorities given the small number of properties likely to be affected.

▪ we are not convinced that the application of a ‘directors’ valuation’ will yield sufficiently reliable or comparable results. There is a risk that some practitioners may not have the required knowledge of, and access to, relevant and reliable indices, or the professional skills required to establish the highest and best use, in order for such an estimate to be made.

▪ where authorities need to revalue their assets as a consequence of applying the new standards it may be possible to apply other estimation techniques such as sample valuations and extrapolations.

One firm suggested that a clearer approach could be that the “Directors’ Valuation” should be calculated based on the advice of a valuer. This would not be a formal revaluation but would draw on the professional knowledge and understanding of the local market.</td><td>It appears that there is very little support from the audit community for this approach. One of the firms has proposed a possible way forward if a “Directors Valuation” was considered necessary as a transitional approach.

CIPFA/LASAAC’s views are sought on the “Directors’ Valuation” and its preferred approach.</td></tr>
<tr><td>Two firms commented that the Scope section of 2.10 specifically excludes leasing transactions within the scope of Section 4.2 of the Code and IAS 17. One commented that this may be appropriate for the initial recognition of assets</td><td>The Exposure Draft uses the same wording as IFRS 13 in relation to the scope exclusions. This does not limit the exclusion to initial recognition. This exclusion would require that</td></tr>
</table>

Issue	**Secretariat Response**
under IAS 17, but the fair value provisions of the Code should apply to the subsequent measurement of leased assets. Both firms raised the issue of its application to assets recognised under the service concession rules of the Code. The Scope Section should be amended to make it clear that these exclusions apply only to initial recognition.	local authorities follow the requirements of section 4.2 of the Code ie an authority "shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments. (see 2013/14 Code paragraph 4.2.2.17)". A similar pattern of recognition would take place for service concession arrangement assets (PFI/PPP assets) in section 4.3 of the Code. However, as there is a specific approach to the recognition and measurement of these assets it may be useful to clarify the treatment in paragraph 2.1.2.30 of the Code.
A firm stated that it considered that the adaptation would be used as a starting point rather than as a last resort. It accepts that some cases there may be a genuine geographical constraint. It considered that this did not warrant an adaptation.	It is suggested that this should be covered by the separate conceptual paper that will follow this report.
An authority responded that the "Route Map" provides a reasonable methodology for Local Government, taking into account both the need to provide an asset on service grounds and also the restrictions of a "market" in certain geographical areas.	See above.
An authority agreed with the approach for Assets discussed. "However, it is not clear from the information received how `Regeneration Properties' held as PPE would be treated. The properties in question have been purchased under our full regeneration policies and are now leased to various tenants but are not classified as "investment properties" because they do not meet the definition.	It is difficult to respond to this query as it is not clear whether or not the authority is constrained by geographical or service constraints.
One authority commented that it agreed there is a necessity to adapt IFRS 13 for PPE due to the	This will be considered by the conceptual analysis of the approach

Issue	**Secretariat Response**
specialist nature of local authority assets and the purposes assets are held. Authorities cannot always maximise use of assets due to statutory and geographical service needs which makes the valuation requirement of highest and best use irrelevant to management decisions. Without the proposed adaptation there would be an invalid inflation of councils' balances sheets which will not represent true wealth or reflect usable information to the users of the accounts.	to IFRS 13 in a paper which will follow this report.
A further authority commented that an adaptation was needed, but did not agree that the draft is the correct one. "The draft adaptation refers to service prescriptions or geographical constraints, but we have difficulty in identifying any circumstances in which this might genuinely apply. For example the provision of library facilities could be provided by mobile libraries, the provision of community centre facilities could be provided within a local school building, etc. - it seems unlikely that there are many cases where there is no alternative to the particular building being used (indeed for non-statutory services, ceasing to provide the service would be an option)." "However, we do agree that there is a need for an adaptation to reflect the fact that since there is no market for many specialised assets in their current use, a fair value as defined would effectively be the value of the underlying land only, and therefore may understate the value to an authority of an asset." "We note that paragraph 29 of IFRS13 "an entity's current use ….. is presumed to be its highest and best use unless …. a different use ….. would maximise the value" has not been included in the Code, but this is particularly relevant. We would therefore suggest that the necessary adaptation should be to make clear that where there is no market for an asset in its existing use, its fair value should be EUV unless a different use would maximise the asset's value. "	This should be covered by the separate conceptual paper that will follow this report. CIPFA/LASAAC did not specify in the consultation paper that the adaptation would only apply to statutory services. One of the difficult concepts identified in the basis of conclusions in the standard itself is that the valuation of a land and building might maximise its economic benefits by measuring the underlying value of the land. See IFRS 13 BC 72: "For example, the fair value of a factory is linked to the value of the land on which it is situated. The fair value of the factory would be nil if the land has an alternative use that assumes the factory is demolished." The Exposure Draft of the Code did not include paragraph 29 in the Code as its current valuation premise of fair value in existing use means that this presumption could not be assumed to be correct and the second half of the paragraph would apply.

<table>
<tr><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td colspan="2">Question 3 Other Issues on Adoption of IFRS 13 including Treatment of Liabilities</td></tr>
<tr><td>One firm commented that "we suggest that the Code could include a note of principal liabilities covered by fair value measurement or disclosure. We consider that it would be helpful to include reference to PFI and complex instruments such as LOBOs as these are not always currently consistently covered in fair value disclosures". A treasury management adviser also raised the issue of LOBOs commenting "as many local authorities currently ignore the embedded options when calculating fair value. However, since there is an active market in swaptions, Level 2 inputs are available. The Code could clarify that the value of the embedded written options should be added to the fair value."

The same firm commented that the proposed wording "simplifies the requirements of IFRS 13 for determining fair value of "liabilities held by other Parties as Assets" through only including the text of paragraph 37 (as paragraph 2.10.2.22) but omitting paragraph 38 which provides more detail on how a valuation may be derived. This highlights the potential difficulties caused by the current format of the Code. We would suggest that the Code should either include both paragraphs 37 and 38 or refers users to the relevant sections of IFRS 13."</td><td>See comments above for PFI assets and liabilities. The Secretariat considers that the fair value measurement of LOBOs is an issue for application guidance.

CIPFA/LASAAC's views are sought on this issue.

The Code does not simplify the requirement by only including paragraph 37 of the standard. The omission of a paragraph from the Code does not mean that it does not apply. The Code includes the main provisions of the standard but there are many areas throughout the Code where paragraphs are not included. In addition, this approach follows the recommendation of the CIPFA/LASAAC review ie that in the adoption of any new standards the main principles of the standard should be included in the Code.</td></tr>
<tr><td>A firm commented that "Appendix A refers to the fact that non-performance risk needs to be factored into the fair value of a financial liability. The draft Code has not been amended to this effect. Whilst we consider non-performance risk to be insignificant in a local government context it would be sensible to align the Code with the standard."</td><td>Paragraph 2.10.2.21 includes this stipulation. CIPFA/LASAAC's views are sought on whether it wants to include any commentary on non-performance risk.</td></tr>
<tr><td>A number of respondents referred to the need for additional clarification ie</td><td>For service concession arrangements and lease liabilities see above. The Secretariat's initial view is that the</td></tr>
</table>

Issue	Secretariat Response
▪ by type of liability (statutory debt, financial instrument, lease liability, PFI etc) ▪ PWLB debts which do not have a transfer value. A Treasury Manager responded that Local authorities have traditionally valued their financial liabilities as the cost of early repayment, rather than the cost of transfer - especially as the PWLB provides fair values that way.	fair value measurement of PWLB debt is an issue for application guidance. **CIPFA/LASAAC's views are sought on this issue.**
Question 4 – Appropriateness of Disclosures on non-observable inputs for local authorities	
A majority of primarily (although not exclusively) local authority respondents considered that the disclosures for non-observable inputs would not be appropriate for local authorities. Many of the respondents were of the view that the level of detail required was too complex, overly burdensome and was likely to detract from the key messages in local authority financial statements. Other key points made by the respondents were that the users of local authority accounts were not the same as the intended recipients of the information required by disclosures ie potential investors in private sector companies. Some of the respondents indicating that key users of local authority financial statements ie (council) taxpayers did not require and would not understand the detail of this information. Some of the respondents focussed on the nature of the assets which would be subject to these disclosures noting that this was unique to the public sector and the resultant impact on reserves was limited. Others noted that the disclosures focussed on the impact on the income statement which would be different for local authority circumstances.	CIPFA/LASAAC debated the inclusion of these disclosures at its meeting last year and decided to retain them in accordance with the standard. Many of the issues raised by local authorities would be addressed by materiality considerations. However, there are some key differences relating to the impact of these disclosures for property, plant and equipment that relate to the public sector nature of the assets that would merit further consideration as a part of CIPFA/LASAAC's conceptual consideration of IFRS 13.
A number of the supportive respondents considered that there may need to be appropriate aggregation of the disclosures.	Depending on the review above this is also likely to be appropriate but can be considered in application

Issue	**Secretariat Response**
	guidance.
One of the firms commented that "…we accept that the full suite of disclosure requirements set out in 2.10.4.1 3) e) to h) would be excessive, but we believe that the following disclosure requirements should be adopted: 3) e) iv);3 g); 3 h) i); and ii). "These disclosures principally relate to the nature of the valuation processes used and their sensitivity to changes in unobservable inputs." Another suggested that 3e) and g) would be useful.	Again this can be considered as a part of the review above.
One of the firms noted that it disagreed that level 3 inputs are unlikely to be relevant to authorities. It commented that authorities had investments in companies and classified as available for sale financial assets. It considered that these would be measured using level 3 inputs. The same firm recognised that the disclosures on property, plant and equipment would need to reflect the usefulness of these disclosures for users of local authority accounts. It commented that if individual authorities do not consider these disclosures to be of benefit to users then it could make the appropriate decision to exclude them on the ground of immateriality.	The Secretariat had consulted on this issue with Treasury Management colleagues at CIPFA and has had discussions on available for sale assets as a part of the production of other application guidance. Both of these discussions recognised that these transactions may exist but both concluded that these would be immaterial for many authorities. However, the final draft of the Code will need to indicate that the disclosures apply where there are material transactions of this type. The Secretariat concurs that the impact of the disclosures might be minimised when authorities take into consideration their usefulness to the users of local authority financial statements.

Group Accounts Standards

Statistical Analysis of Responses

Question		Agree	Disagree	No Comment
5	Do you agree that the amended definitions in the Code Exposure Draft of Chapter 9 accurately reflect the reporting requirements for local authorities under the new Group Accounts Standards? If not, why not? What alternatives do you suggest?	28 (58%)	0	20 (42%)
6	Do you agree that the Code Exposure Draft accurately incorporates the requirements of IFRS 10 Consolidated Financial Statements (including the two sets of subsequent amendments to the standard)? If not, why not? What alternatives do you suggest?	27 (56%)	1 (2%)	20 (42%)
7	Do you agree that the Code Exposure Draft accurately incorporates the requirements of IFRS 11 *Joint Arrangements* (including the amendments to the standard in 2012)? If not, why not? What alternatives do you suggest?	28 (58%)	0	20 (42%)
8	Do you agree that the Code Exposure Draft accurately incorporates the requirements of IFRS 12 *Disclosures of Interests in Other Entities* (including the two sets of amendments to the standard in 2012)? If not, why not? What alternatives do you suggest?	28 (58%)	0	20 (42%)
		Approp riate	Not Appropriat e	No Comment
9	Do you consider that the disclosures in IFRS 12 for unconsolidated structured entities (see paragraphs 9.1.4.24 to 9.1.4.31) are appropriate for the users of local authority financial statements? If you consider that the disclosures are inappropriate do sufficient differences exist between the users of local authority financial statements and the users of private sector entities to warrant an adaptation to the Code for the disclosures? If so, what form should such an adaptation take?	17 (35%)	7 (15%)	24 (50%)

		Agree	Disagree	No Comment
10	Do you agree that the Code Exposure Draft accurately incorporates the requirements of IAS 27 and 28 (as amended in 2011) (including the further amendments to the standards in 2012)? If not, why not? What alternatives do you suggest?	26 (54%)	0	22 (46%)

Comments and Responses

Issue	**Secretariat Response**
Q5 Definitions from the Group Accounts Standards in Chapter Nine of the Code	
One of the authorities concurred with the approach in the ED, and commented: "However, it does not cover the full scope of local authority activities. Local authorities are increasingly working through joint committees and other partnership bodies. In most cases decision making is by majority voting rather than unanimous consent, and so there is no joint control as it is now defined. Therefore many such arrangements would fall completely outside the new definitions of joint arrangements, and so would not be covered by any of the accounting requirements for joint operations and joint ventures, even those of paragraph 9.1.2.59. This therefore leaves a vacuum in the Code on accounting for joint committees and partnership bodies where there is no joint control (although some may fall within the definition of associates, many will not). This is not a satisfactory situation, and the Code should set out the required accounting for such arrangements."	This is an interesting response. However, if these do not meet the definition of joint control then at this juncture it is not possible to include this in Chapter Nine for the 2014/15 Code. Following the approval of the 2014/15 Code the application guidance on Group Accounts will be reviewed and was anticipated to consider partnership arrangements. The Secretariat will investigate this issue with this authority as a part of the production of this application guidance. It will report back to the Board if there is any need to make explicit provisions in the Code. **No further action recommended.**
An audit body responded: "We suggest an amendment to the definition of significant influence would be helpful. IPSAS 7 states that the 20% of voting rights limit is only relevant where the ownership interest is in the form of shares. This limit	The definition of significant influence has not changed. The revised IPSAS 7 is currently subject to consultation and so it is not recommended that any changes be made at this juncture. Common good funds have been

Issue	**Secretariat Response**
therefore is not relevant to statutory bodies. We suggest that 'where the interest is in the form of shares' is added after 'investee' in the 4th line of paragraph 9.1.2.21." "It is not clear why common good funds are specifically mentioned as an adaptation at paragraph 9.1.1.5. There are other types of entity/interest that require to be considered that are not explicitly mentioned. To avoid confusion, it is suggested that the reference to common good funds be removed." "It would be helpful if the Code clarified that interests should be considered in aggregate rather than individually. This means that if interests are material in aggregate, they should all be included in group accounts, including any that are not material on an individual basis. It is suggested that 'in aggregate' be added to the end of paragraph 9.1.1.6."	explicitly referred to in the Code and the predecessor (the SORP) as this has been an area of significant debate. This has been mentioned by the same respondent (previously enquiring why this was included in an adaptations paragraph) in last year's consultation. The Code only refers to consideration needing to be given to the common good for consolidation it does not specify any requirements. The proposal for the inclusion of the wording "in aggregate" is an additional test for materiality which is not included in the Standards. The Secretariat does not therefore recommend its inclusion in the Code. **Subject to CIPFA/LASAAC views it is suggested that no further amendments be made to the definitions at this juncture.**
Q6 Adoption of IFRS 10	
An audit body commented: "Paragraph 9.1.2.39 requires an authority to produce group accounts in which it consolidates its investments in associates and joint ventures unless the interest is considered not material. However, there is no definition of the term 'investments'. We suggest that a definition be added that is wider than an equity investment."	This is in accordance with IAS 28 (May 2011) and therefore it is recommended that no changes are made. **No further action recommended.**
A firm responded: "Because the code incorporates elements of IFRS 10, 11 and 12 it might be useful for users if clearer cross-references to the standards were included in the text." "Paragraph 9.1.2.34 includes provisions relating to the determination of whether a reporting authority with decision-making rights is acting as a principal or as an agent. Although it is not stated in the standard these provisions are principally aimed at investment	The previous edition of Chapter Nine also incorporated a number of standards and only included references where necessary. This is not consistent with approaches in the remainder of the Code. See Chapter Seven *Financial Instruments*. The introduction to each chapter or section includes reference to the standards that are applied. The Secretariat concurs with the respondent that the Standard may

Issue	Secretariat Response
managers who manage funds on behalf of clients and the Board may wish to consider whether this paragraph is applicable to local authorities." "Paragraph 9.1.2.42 states that the local authority's share of surpluses or deficits arising from transactions between the reporting entity and its associates or joint ventures should be eliminated. This paragraph should be amended to make it clear that this only applies to unrealised profits."	have been drafted from that perspective. However, this is likely to have a public sector application and is a feature of the current accounting for schools debate. The Secretariat has amended this paragraph only to reflect the inclusion of joint ventures into the consolidation provisions of this paragraph. This is a summary of the effects of paragraph 42 of IAS 28 (May 2011). This does not stipulate that these are unrealised gains and losses. **No further action recommended.**
A firm responded that it generally agreed. "However, we think that the Code should expand on the requirement to determine the relevant activities of the entity. This is because in situations where the investee is undertaking more than one activity – simultaneously or over time – it may require significant judgement as to what the relevant activities are. It noted that this can be an even greater issue for joint arrangements where each of the parties may have different levels of involvement/influence at different times for different activities."	The Secretariat concurs as this has been a significant issue for the complex schools debate. It has therefore added two further paragraphs to the Code see paragraph 9.1.2.32 and 33. **CIPFA/LASAAC's views are sought on this addition.**
The same firm raised the issue of the transition guidance on which versions of IFRS 3 and IAS 27 to apply to previous transactions. However, as the previous IFRS versions of the Code have only ever incorporated the 2008 versions of IFRS 3 and IAS 27 we suggest that the Code mandates here the use of these versions.	The Secretariat concurs – see amendment to paragraph 9.1.2.68. **CIPFA/LASAAC's views are sought on this addition.**
An authority commented "We have some reservations in relation to non-financial variable returns, and feel that the wording used in 9.1.2.31 is ambiguous. For example, in relation to service potential, we feel that it needs to be made clear that	The example of an entity paying for the service as a commercial transaction should not be deemed to be a return as described in the standard. However, for the avoidance of doubt appropriate clarification has been added at the end of paragraph

<table>
<tr><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td>where a local authority is paying e.g. an ALMO to provide a service at a fair economic rate, this does not represent a 'return' in the sense intended by IFRS10. However, if an authority is able to dictate that the rate it pays for services does not give the ALMO a reasonable margin, this may represent such a 'return'.

“It is also not clear whether the existence of just one item within one of the lists (a) to (d) in the draft 9.1.2.31 should be sufficient to mean that variable returns exist. Again using the example of ALMOs, usually the only benefit that can be extracted is the acquisition of assets and liabilities on winding up, and it is not clear from the wording whether this alone would be enough to constitute a variable return.

“The changes also raise the issue again of how charitable companies are treated. Many such are established to operate local authority services on an arms-length basis, but charity law limits the extent to which returns can be extracted even on winding up. A clearer explanation of what is meant by 'service potential' would help.”</td><td>9.1.2.34 (d).

CIPFA/LASAAC’s views are sought on this addition.

The lists (a) to (c) in paragraph 9.1.2.33 are largely replicated from the standard. It is a matter of application whether or not the returns meet the specifications of the Standard.

The Secretariat is aware that charitable companies may be impacted on by the new standards and has reported on this previously to the Board in June 2011. The definition of service potential is not though intended to be any wider than the benefits included in the definition of control under IAS 27 as adopted by the Code. The term service potential is used elsewhere in the Code. However, it has not yet been defined in the Code. This would need to be in accordance with any definition that may be defined by IPSASB in the development of its conceptual framework.

No further action recommended.</td></tr>
<tr><td colspan="2">Q7 Adoption of IFRS 11</td></tr>
<tr><td>A firm raised the following issues in relation to IFRS 11.

“…there are no statutory accounting requirements for group accounts. However, the impact of adopting IFRS 11 in particular could be could be significant because in some cases where authorities are currently consolidating joint ventures using either equity accounting or proportional consolidation may need to recognise individual [rights or obligations for] assets, liabilities, transactions etc. of the joint venture in their own single entity accounts [subject to the need to</td><td>The Secretariat concurs that this is an issue which an authority may need to consider where an authority is currently recognising in its group accounts its interests in a jointly controlled entity (either by means of proportional consolidation or equity accounting). It is possible that this relationship may now be classified as a joint operation which would require that recognition its share of the assets, liabilities income and expenses in the single entity accounts. None of the respondents to the consultation</td></tr>
</table>

Issue	**Secretariat Response**
reclassify these on the introduction of the new standards].”… “By their inclusion in the single entity accounts, these assets liabilities income and expenses would be within the scope of the capital finance regulations of for the authority.”	highlighted that they would need to consider a reclassification from a jointly controlled entity to a joint operation. However, if this were necessary this should only mean a disaggregation of the investment into the share of its assets liabilities income and expenses. The statutory accounting requirements are not therefore likely to be affected as the capital financing requirement should reflect an authority’s underlying need to borrow (which will not have changed as a result of this change of classification) and therefore appropriate adjustments would be made to the capital financing requirement. The Secretariat will raise this issue with the DCLG. **No further action recommended.**
Q8 Adoption of IFRS 12	
A firm responded: “Paragraph 9.1.4.21 b) i) states that the reporting authority should disclose for each material joint venture or associate whether the investment in the joint venture or the associate is measured using the equity method or at fair value. This paragraph should be amended to make it clear that fair value is only appropriate in the single entity (separate) financial statements prepared by a local authority. “	See main report paragraph 2.12 for comments **CIPFA/LASAAC’s views are sought on this issue.**
A number of authorities highlighted the increased disclosure requirements.	There are a number of new disclosures in IFRS 12 (see also below). However, both the IFRS and the Code place an emphasis on aggregation and the need to consider the materiality of transactions in the financial statements. **No further action recommended.**

Issue	**Secretariat Response**
Q9 Appropriateness of disclosures on Unconsolidated Structured Entities	
A number of respondents highlighted the disclosures in relation to unconsolidated structures entities having the potential to add clutter to the statements. A number of these respondents recognised the ability to aggregate the disclosures and/or requested additional guidance on this issue. One of the firms considered that there was a need to highlight the importance of materiality in the disclosures. One authority considered that the Code should encourage a general statement about how services are provided, but include a rebuttable presumption that the detailed disclosures in the standard are not required, giving specific guidance as to the circumstances when they should be included. A number of respondents were concerned that these requirements might include information on bodies that local authorities are providing grant funding for in the normal course of local authority transactions	The ITC referred to the need for aggregation and consideration of materiality requirements. Application guidance on this Standard will be produced by CIPFA. CIPFA/LASAAC has previously agreed not to make any significant changes to these disclosure requirements. The disclosures should not include information about those bodies an authority provides grant funding to unless these funds are material funds provided to unconsolidated structured entities. **CIPFA/LASAAC's views are sought on whether any further amendment is required to these disclosures.**
A number of the supportive respondents reflected on the objective of the standard with one of the firms noting that authorities might be more likely to deliver more services by vehicles similar to or meeting the definition of structured entities and thus understanding the risks to the authority is important.	No further comments, but this supports the retention of the disclosures without adaptation. **No further action recommended.**
Q10 Adoption of IAS 27 and 28 (May 2011)	
A firm commented "Paragraph 9.1.1.3 of the Code should be amended to make it clear that where an authority has investments in associates and/or interests in joint ventures but no interests in subsidiaries it should prepare Group Accounts and equity account for its interests in these interests in associates. This is inferred by the	Paragraph 9.1.1.3 of the Code provides a general description of the adaptation included in the Code's provisions which are provided in the draft paragraphs 9.1.2.42 and 9.1.2.44. However, a cross-reference has been added to clarify. **CIPFA/LASAAC's views are sought**

Issue	**Secretariat Response**
current wording but it would be better if it was explicitly stated."	**on this change.**

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

Question		Agree	Disagree	No Comment
11	Do you agree that the Code Exposure Draft accurately incorporates the requirements of the Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities?* If not, why not? What alternatives do you suggest?	32 (67%)	0	16 (33%)

Comments and Responses

Issue	**Secretariat Response**
One of the firms suggested that the Foreword to the Code should include the effect of the changes as they may require some entities to discontinue current offsetting practices.	The Foreword will flag up the changes to the Code, following approval by CIPFA/LASAAC. However, the practical effect of this guidance will not be included and would normally be a matter for application guidance. **No further action recommended.**
A Treasury Manager indicated that although he agreed with the changes that he did not agree that offsetting did not happen as he considered that many authorities offset bank accounts in credit with bank accounts not in credit. A number of respondents supported the supposition in the ITC that this was not a common transaction.	Bank overdrafts are not the offsetting transaction defined in IAS 32. The Secretariat has undertaken some research on this issue in developing application guidance on the parallel changes to IFRS 7 introduced to the Code in 2013/14 and the consensus appears to be that it is not a common transaction. **No further action recommended.**

Annual Improvements to IFRSs 2009 – 2011 Cycle

Question		Agree	Disagree	No Comment
12	Do you agree that the Code Exposure Draft accurately incorporates the requirements of the Annual Improvements to IFRS 2009 -2011 Cycle? If not, why not? What alternatives do you suggest?	32 (67%)	1 (2%)	15 (31%)
13	Do you agree that the complete set of financial statements should include statutory statements such as the Housing Revenue Account? If not, why not? What alternatives do you suggest?	36 (75%)	0	12 (25%)

Comments and Responses

Issue	**Secretariat Response**
Q12 Annual Improvements to IFRSs 2009 – 2011 Cycle	
An audit body suggested that it would be helpful if the Code stipulated that a third balance sheet should only be produced where there is a material effect on the information in that balance sheet. The same audit body considered that the Code should include explicit references to these paragraphs.	It would be difficult to make an explicit reference to materiality in this section of the Code as all of the Code's provisions apply to material transactions. These have not been included in accordance with CIPFA/LASAAC's views on a principles based approach to the inclusion of provisions in the Code. **However, CIPFA/LASAAC's views are sought on whether they want to review this for the amendments to IAS 1.**
An authority recommended that the Code explicitly includes paragraphs 38A to 38D	See previous comment.
Q13 Complete list of Financial Statements (inclusion of statutory statements)	

Issue	**Secretariat Response**
A firm recommended that the wording of the Accounts and Audit (England) Regulations 2011 should be replicated in Code for consistency.	The Code is a UK based Code and this may therefore not reflect the impact in other jurisdictions.
Another firm recommended a minor change in drafting as the proposed wording is capable of being misread as including statements which an authority is required by statute to maintain (eg accounts required under the Building (Local Authority Charges) Regulations 2010) but which statute does not require to be included in the statement of accounts of local authorities.	The Secretariat concurs and appropriate amendments have been made. **CIPFA/LASAAC's views are sought on this change.**
A small number of authorities commented that by adding this to the list it may change the status of these statements as supplementary statements.	The Code does not have a hierarchy of statements within the complete list and these are not intended to change the status. The Secretariat suggests that these could instead be included at the end of this list. **CIPFA/LASAAC's views are sought on this change.**

Local Government Reorganisations and Other Combinations – Clarification of the Code's Requirements and Alignment with Other Public Sector Bodies

Question		Agree	Disagree	No Comment
14	Do you agree that the 2014/15 Code Exposure Draft proposed amendments appropriately reflect the nature of the reorganisation or transfer transactions that occur for local government and other public sector combinations? If not, why not? What alternatives do you suggest?	28 (58%)	0	20 (42%)

15	Do you agree that gains or losses on transfers of functions should be accounted for as reserves transfers for local government bodies? If not, why not? What alternatives do you suggest?	28 (58%)	1 (2%)	19 (40%)

Comments and Responses

Issue	**Secretariat Response**
Q14 Revisions to Local Government Reorganisations and Other Combinations	
A firm responded: "We observe that the HM Treasury FReM restricts the use of transfer by merger accounting to transfers of functions between central government departments at a group accounting level. "Hence, we believe that the proposed wording in paragraph 2.5.2.4 of ED5 potentially means transfer by merger accounting may be more widely used in local government than in other government sectors."	The Code emphasizes that accounting by pure merger accounting is a rare transaction. Local government is structured differently from central government. The Code always retained the use of merger accounting (see paragraph 9.1.1.8) and as this has now been clearly described as a rare transaction this has limited its use. **Minor amendment to reflect that this is a rare transaction. CIPFA/LASAAC's views are sought on this change.**
A second firm responded: "Our interpretation of para 2.5.2.1 is that a school transferring to academy status is a business operation and as such should be accounted for as a transfer of functions under Section 2.5 of the Code. "Academies are companies limited by guarantee and exempt charities and are consolidated into the accounts of the Education Funding Agency and, ultimately the Department for Education. They are public sector bodies but outside of the local government sector, which suggests that the transaction should be accounted for as a transfer by absorption (paragraph 2.5.2.4). "Currently the vast majority of local authorities in this position have derecognised	It is very possible that a transfer to academy status is a transfer of a function. CIPFA/LASAAC has referred this issue to its working party on accounting for schools (who have subsequently referred it back to CIPFA/LASAAC) but this can only be taken forward following the conclusion of the wider accounting for schools debate. When such queries have been referred to CIPFA (and new edition of the CIPFA Publication on Accounting for Academies), CIPFA has referred to the review by CIPFA/LASAAC and raised the possibility that reference should be made to section 2.5 of the Code for authorities to consider the provisions and the possibility that it

Issue	Secretariat Response
assets and liabilities transferred to the academy and recognising a loss on disposal. Effectively, such transfers are being accounted for in a way which suggests that academies are outside of the public sector (see para 2.5.2.9 of the Draft code). For a discussion of the implications see 15."	may be a transfer of a function. **Recommend that this is highlighted on the development agenda for CIPFA/LASAAC.**
A third firm, responded that it find the paragraphs 2.5.2.3 to 2.5.2.5 confusing as it suggests that paragraph 2.5.2.3 "transfer by absorption" is a modified form of merger accounting. It implies that transfer by absorption are two distinct types of transaction whereas they are different accounting treatments that could be applied to a single type of transaction ie a transfer of a function to or from a local authority. Furthermore, the proposed wording neither includes criteria nor other factors but relies on substance of the transaction. A second firm suggested that there should be a set of criteria for transfers by merger. It also noted that the FReM uses merger and absorption accounting for specific types of transaction ie between government departments and all other transactions.	The Code had previously described the form of accounting used for the vast majority of transfer of function transactions as a form of merger accounting as a result of the links to paragraph 9.1.1.8 of the Code and section 2.5 of the Code. Transfer by absorption is not acquisition accounting. The accounting treatment in the Code for these transfers has not changed. As this has been described in the FReM as accounting by absorption to promote consistency this term has been added to the Code. As the Code permits merger accounting (see 2012/13 Code 9.1.1.8), and a number of authorities in recent transfers have opted to use this form of accounting it was appropriate to specify what this accounting treatment would mean within section 2.5. However, the Code underlines that this is rarely seen in local government and to ensure consistency with the FReM does not permit such transactions to be accounted for in such a way for transactions outside local government. The accounting for merger treatment is not for the same transaction as this would require that a very different transaction would take place from the normal type of transfers of functions or local government reorganisations. It is very difficult to specify the criteria for merger accounting (although one criterion of 100% public ownership of both bodies is included in paragraph

Issue	**Secretariat Response**
	9.1.1.8) as in substance the transaction should mean that the same entity would continue to exist. It is possible that the Code could use the criteria in FRS 6. However, these would not all apply as these were drafted from a commercial perspective. Also these criteria are not developed to differentiate these transactions from transfer by absorption. **The Secretariat suggests no further action unless the Board wishes further provisions establishing criteria for accounting for such transfers as merger accounting.**
An authority agreed with the proposal but commented: "However, the Code currently only refers to transfers of functions to non-public-sector bodies, and makes no reference to transfers from such bodies. These can increasingly occur e.g. if social enterprise bodies are wound up. The accounting can be inferred as the mirror of the transfer of functions out, but it would be better to cover transfers in from non-public-sector bodies explicitly."	This would be accounted for as an acquisition. **No further action recommended.**
Q15 Gains or Losses on Transfer	
One authority commented: "We see no reason to deviate from the FReM. To show the gain/loss as a non-operating gain/loss is probably more understandable and transparent than to reflect as a transfer in reserves". A firm commented: "We consider that authorities should follow established accounting practice and account for gains or losses on transfer of functions in the surplus or deficit on provision of services.	The currently and previous established accounting practice in the Code has not changed. IFRS GAAP does not include the accounting transactions per transfers by absorption. One of the rationales for this treatment is that this is not a transaction that has been caused by any action of the authority or its resources but one that arises by virtue of (changes to) statory provisions. The accounting treatment in the FReM consultation on this issue was very similar to that in the Code, as was noted at the last meeting. The

Issue	**Secretariat Response**
We suggest that CIPFA/LASAAC consider the impact of recognising such gains or losses on council tax payers and whether discussions are required with DCLG on any statutory mitigation." A further firm noted that absorption accounting treatment should be applied in accordance with the FReM. With the reserves treatments following the individual type of reserve.	accounting treatment that arose was as a result of aligning with budgetary requirements and not on the basis of accounting principles. It should be noted that the first transfers under these arrangements for national health service bodies, the Department of Health and HM Treasury had agreed to an exemption from FReM requirements for absorption accounting for transfers of functions occurring across financial years where the transferor is not in existence on 1 April 2013, so that the net transfers are accounted for through reserves rather than as a gain or loss. Such transfers do represent gains or losses to the authority and would be the only example of gains or losses being recognised this way. Therefore these could be recognised in operating income and expenditure but as such these are likely to be windfall transactions which are likely to need statutory mitigation. **CIPFA/LASAAC's views are welcomed on the way forward.**
A firm commented: "The Invitation to Comment notes that absorption accounting is the same as the current Code's approach to accounting for local government reorganisations. In our view the Code's adoption of the FReM definition of the transfer of a function will cause local authorities to question their current treatment of academy school transfers. This will not be well received by local authorities and it would be sensible for the Code definition to clarify the position where elements of services rather than the function as a whole are transferred to another public sector body. "	See above comments on transfers of academies. The Code had added to the definition of a transfer of a function to include the word "services" to make this more compatible with local authority operations. The Code already implies that such transfers can be part of a service as it also refers to transfers in a geographical area. The Secretariat would also note that a number of the individual transactions that an authority would account for under the transfers are driven by contractual arrangements and instructions which the Code is unlikely

Issue	**Secretariat Response**
	to be able to override. **The Secretariat suggests this should be discussed by the CIPFA/LASAAC Working Party on Accounting for Schools.**

Pension Fund Financial Statements in Scotland – Statement on the System of Internal Financial Control

Question		Agree	Disagree	No Comment
16	Do you agree that the new paragraph 6.5.5.2 reflects the reporting requirements for the Statement on the System of Internal Financial Control for Scottish local authority's pension funds? If not, why not? What alternatives would you suggest?	7 (15%)	1 (2%)	40 (83%)

Comments and Responses

Issue	**Secretariat Response**
Q16 Pension Fund Financial Statements in Scotland – Statement on the System of Internal Financial Control (SSIFC)	
An audit body commented "…we consider that the proposed wording at paragraph 6.5.5.2 seems to allow that position as it states that if the governance compliance statement does not meet the SSIFC's reporting requirements, the pension fund financial statements shall include "any necessary additional disclosures, reports or statements". We consider that the inclusion of the word 'statements' seems to allow the inclusion of two statements. "More fundamentally, we do not consider it necessary or appropriate for a governance compliance statement to meet a SSIFC's reporting requirements. This is because: • The SSIFC is designed to apply to the controls of an entity. However, the	Section 6.5 acknowledges that: "this section of the Code does not by itself specify all the requirements for preparing retirement benefit plan financial statements; other relevant provisions of the Code apply to the extent they are not superseded by this section of the Code." Section 3.7 of the Code requires that for Scotland a SSIFC is provided with the financial statements. Therefore the provisions of a SSIFC that would apply to a pension fund should be provided with the pension fund statement in accordance with section

Issue	**Secretariat Response**
pension fund is not a separate entity; it is a fund within an administering authority, and uses the authority's systems, processes and controls. The authority's SSIFC/annual governance statement (in its own annual report and accounts) is required to cover all significant corporate systems, processes and controls. This includes, in the case of an administering authority, systems etc that relate to the pension fund. • The key governance aspect of the pension fund is the operation of the pension committee. The CIPFA guidance note Delivering Good Governance in Local Government Pension Funds aims to place the requirement for a governance compliance statement in the context of the CIPFA/SOLACE publication Delivering Good Governance in Local Government. It advises administering authorities to see the governance compliance statement as the application of the CIPFA/SOLACE governance framework to pension funds. We agree with this view. • The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 require administering authorities to measure their governance arrangements against the standards set out in guidance issued by Scottish Ministers. Where compliance does not meet the published standard, there is a requirement to set out any reasons for non-compliance in their governance compliance statement. There is no requirement to meet the requirements of a SSIFC. "We therefore recommend that the pension fund annual report should include only a governance compliance statement prepared in accordance with guidance from the Scottish Ministers. The annual report could, however, refer readers to the annual governance statement/SSIFC of the administering authority rather than include any additional	3.7. The Governance Compliance Statement required by the pension fund regulations does not appear to accommodate the principles of the SSIFC. Therefore the recommended text of the Code has changed to reflect this. **CIPFA/LASAAC's views are sought on the amended text.**

Issue	**Secretariat Response**
disclosures, reports or statements.	

True and Fair View

Question		Agree	Disagree	No Comment
17	Do you agree that CIPFA/LASAAC should seek to harmonise references to a true and fair view on the requirements of paragraph 3.4.2.19 of the 2013/14 Code? If not, why not? What alternatives would you suggest?	34 (71%)	0	14 (29%)

Comments and Responses

Issue	**Secretariat Response**
Q17 True and Fair View	
An audit body commented: "We agree that harmonisation is important in references to a 'true and fair view' but we have some suggested changes to the harmonised wording proposed: "1) The proposed wording does not actually contain the phrase 'true and fair view'. We suggest that 'presentation' be replaced with the more customary used 'view'. "2) There is no need for an explicit reference to cash-flows." A firm responded that it considers that the definition in paragraph 2.1.1.4 of the Code should be used as this reflects most closely IAS 1 and was the term used in the Accounts and Audit Regulations. An authority suggested using the terminology in IAS 1 to present fairly.	The changes to the Code need to be tailored to the individual chapters/sections of the Code. The references to "true and fair" view in chapters one and two of the Code have been drafted to bring together the concept of a "true and fair" view and the statement required to be provided by the Chief Financial Officer/Responsible Financial Officer in accordance with statutory requirements. Therefore in these circumstances the text has been changed to a "'true and fair' view of the financial position, financial performance and transactions cashflows of a local authority." (The following paragraphs have therefore been amended 1.1.1, 1.1.5, 1.3.2, 1.4.1 and 2.1.2.9) The references in Sections 3.2 and 3.7

Issue	**Secretariat Response**
	have not been changed as these reflect the statutory reporting requirements. The references in Section 3.4 reflect the approach in IAS 1 and therefore no change has been made to these paragraphs. **CIPFA/LASAAC's views are sought on these changes.**

Appendix C to the Code

Question		Agree	Disagree	No Comment
18	Do you agree that Appendix C includes requirements as a result of the changes in new accounting standards as these changes impact on the reporting requirements of 2013/14 and 2014/15 financial years? If not, why not? What alternatives would you suggest?	30 (63%)	1 (2%)	17 (35%)

Comments and Responses

Issue
Q18 Appendix C to the Code
No issues of substance were raised. A number of authorities requested guidance on application issues.

Question	
19	Are there any further accounting standards or legislative changes that need to be reflected in the Code?

Issue	**Secretariat Response**
Q19 Accounting Standards or Legislative Changes	
Proposed changes to the accounts regulations in Scotland that would impact on the Code include a management commentary to replace the explanatory foreword; an annual governance statement; and new signing, dating and accounts approval requirements.	The Code will need to be updated for these regulations when issued in final form. **No further change at this juncture.**
A firm commented: "At this stage we are not aware of any further accounting standards or legislation that need to be reflected, however, we recommend a further update be included in the 2014/15 Code Update if appropriate. "In particular there is a number of accounting standard amendments that are expected to be endorsed with an effective date of 1 January 2014 (e.g. 2011-13 Annual Improvements Cycle and 2012-14 Annual Improvements Cycle)."	The standards will need to be endorsed by the effective date for the improvements to be included in the Code. These standards are not yet listed on the EFRAG Endorsement Status Report. **No further change recommended.**
One authority raised the issue of additional provisions for NDR Pooling which it considered would need to be included in a 2013/14 Code Update.	Section 2.8 of the 2013/14 Code already contains provisions on NDR Pooling. The Secretariat will raise the issue with DCLG colleagues.

Movement in Reserves Statement

Question		Agree	Disagree	No Comment
20	Do you agree with the Post Implementation Review that the Movement in Reserves Statement achieves the purpose of the Statement ie to present a summary analysis of the movement in the reserves part of the authority's balance sheet? If not, why not? What alternatives do you suggest?	39 (81%)	3 (6%)	6 (13%)
21	Do you have any suggestions for improvement in the functionality or the understandability of the Statement? Please note that these improvements would need to accord with the Code's approach to the adoption of IAS 1.			

Issues/Comments
Q20 and 21 Movement in Reserves Statement
Secretariat Comment **The main comments and suggestions are listed below. The Secretariat would highlight the significant support for the Movement in Reserves Statement. It would recommend that these comments be prioritised in the review of the financial statements recommended by the post implementation review to follow the close of the 2012/13 financial year.**
One authority commented "it is a very useful statement". A number of authorities supported this comment – see also responses to question 20.
We agree that the statement achieves its purpose and its complexity is as a result of the underlying local government accounting framework mix of statutory and standard based approach.
One of the most complex areas of local authority accounting is the adjustments between accounting and funding basis within the Movement in Reserves Statement (MiRS). We find that local authorities present the adjustments in various formats: - Some present the adjustments on the face of the MiRS - Some present in a note to the MiRS in line with the 'example accounts' in Chapter 3 of the Code Guidance Notes - Some present in a note to the accounts in a format different to that in Chapter 3 of the Code Guidance Notes Whilst all of the above approaches are generally deemed to be acceptable, we believe comparability (and therefore understandability) would be enhanced if a standard format of lines presented was required by the Code.
More information could be given on the split of reserves between usable and non-usable. In particular this might include narrative on the nature and potential use of usable reserves.
Despite the MIRS being crucial to the understanding of an authority's accounts it remains an area where auditors continue to note significant misstatements on a regular basis. We believe that mandating the detailed items to be included within note outlining the 'Adjustments between accounting basis and funding basis under regulation' would be a useful addition to the Code.
Greater consistency of format across local authorities to enable comparability. More emphasis on usable reserves and how they link in with the comprehensive income and expenditure account, particularly the movement in the general fund balance.
As a mathematical, auditable structure, the statement works well. The main difficulty is the correcting ABABFBUR entries which are not issues of presentation, but a result of the required accounting treatment not reflecting statutory requirements. A large proportion of the SDOPS costs are stripped out and, though of potential interest to future council taxpayers in the sense that these costs may (but also may not) come home to roost at some future date, they are of no direct relevance to current council taxpayers and politicians. Somehow, within the statement, we need to draw attention to the thing which matters most directly (the change in funding capacity), rather than the confusing and significant "correcting" entries required precisely because they are not relevant to current council taxpayers and accounts users.

Issues/Comments
The MIRS needs to be read in conjunction with the note to the accounts re adjustments between accounting basis and funding basis under regulation, and so it would be more informative to the reader of the accounts if some of the figures in this note were included in the MIRS.
We agree with the necessity of this statement however we feel that it appearing as the first statement in the Councils accounts leads to it being perceived as the most crucial statement and this overstates its importance. We feel that it would be better shown after the Comprehensive Income and Expenditure Statement and Balance sheet.
The Note on Adjustments between Accounting Basis and Funding Basis is very technical and too complex for the reader. It could be simplified and made much more intuitive, even for practitioners. Even the terminology could be plainer to aid its readability.

Comments and Responses to Question 26

Issue Raised	Secretariat Response
▪ We refer to our general comments on the format of the Code. We suggest that CIPFA should the follow approach adopted by the HMT FReM in relation to IFRS under which bodies are required to follow standards other than where there are specified formal adaptations or interpretations for local authorities. ▪ In any case we suggest that the Code should make it clear that all IFRS requirements, that are material to the accounts, should be complied with unless these are specifically excluded by formal adaptations within the Code. The proposed amendment on comparatives provides a good example here. This was amended in IAS 1 for annual periods beginning on or after 1 January 2009 (ie 2010/11 accounts for authorities). In our view authorities should therefore already be complying with this requirement under IAS1, as this has not been formally excluded through an adaptation in the Code. ▪ The disclosure of future operating commitments (service/lifecycle) under PFI schemes should include the effect of RPI increases and disclosure of the potential future effect similar to interest rate risk disclosures already used for financial instruments. ▪ The adaptation in Paragraph 4.1.1.6 of the 2013-14 Code in relation to accounting for the depreciation of significant components of an asset and the derecognition of old components and recognition of new components should be deleted as this is no longer necessary.	▪ See main report section 2 to in relation to the format of the Code. ▪ In terms of IFRS – a general description of the application of the Code is provided in Chapter One with each chapter and section dealing explicitly with each standard and how it should be applied. The amendments to the Code for IAS 1 only include the amendments introduced by the improvements standards. ▪ Paragraph 4.3.4.2 of the Code requires that the disclosures on service concession arrangements are in addition to those in chapter seven. Paragraph 7.1.2.2 of the Code states that the "…disclosure requirements of this chapter of the Code apply in full to these transactions and balances". ▪ Paragraph 4.1.1.6 needs to be retained as the permission (adaptation) for non-retrospective restatement on componentisation will need to remain for the useful lives of the assets in existence on transfer.
▪ **Code references to accounting standards** Code references to accounting standards are inconsistent. In some cases, users are directed to the relevant paragraph of the standard, in others there is no reference. It would assist users to refer to standards consistently.	▪ **Code references to accounting standards** It is recognised that there may be inconsistency. This has developed as a result of the different detail needed to be referred to in each standard for the transaction in question and by different drafters. However, this would need to be reviewed as different sections of the Code are amended.

▪ **Non transport infrastructure assets** CIPFA/LASAAC should establish a timetable for requiring other infrastructure assets to be carried at valuation rather than cost. ▪ **Accounting for landfill sites** We note that while this is generally an issue for the Guidance Notes, we think that there may be scope for highlighting the issue in the Code. A further authority identified the need to produce guidance on leachate and methane monitoring.	▪ **Non transport infrastructure assets** This would need to be referred to the *Code of Practice on Transport Infrastructure Assets* Project Implementation Steering Group. ▪ **Accounting for Landfill Sites** This is a project that the Secretariat has identified for further review when resources permit. CIPFA/LASAAC agreed at its last meeting that this is an issue for application guidance. The review of this area will identify if any further issues need to be considered in the Code.
Simplification of reporting requirements.	This needs to be considered as a part of the Simplifying and Streamlining the Accounts consultation.
A more defined approach to componentisation	This is subject to a separate Local Authority Accounting Panel (LAAP) Working Group considering both application guidance and whether there is a case for augmenting the Code's provisions on this issue.
▪ Exit packages – the guidance notes are brief and open to interpretation. ▪ Leases – it would be useful to have more guidance in the guidance notes on the agreements that go on in local authorities for example we have many agreements that have no fixed end date. ▪ Accounting for joint operations.	▪ Exit packages – this is an issue for application guidance (refer to LAAP). This guidance has been updated in the latest issue of the Code Guidance Notes which will be published at the end of November. ▪ Leases have been considered by LAAP but this issue will be referred to them. ▪ Accounting for joint operations - this is an area which has already been considered by LAAP but see also the review which will be considered as a part of the new application guidance to be issued on Group Accounts.
▪ Additional guidance on lease classification and how to apply the indicators. ▪ Pension Fund investment management costs.	▪ The lease issue – refer to LAAP. ▪ This is being considered by the Pensions Panel.
Non-current assets – application of capital receipts to defray disposal costs in revenue expenses is applicable from the period in which the disposal is recognised.	This is an application issue which has been considered by LAAP – refer to LAAP.
Allocation of support service costs to services.	This is a principle which underpins the Service Reporting Code of Practice – which is produced by LAAP – this issue needs to be referred to LAAP. Although if LAAP considered that this needed to change significantly this would then

	need to be referred to CIPFA/LASAAC.
The DCLG stock valuation guidance and the Code requirements.	The Secretariat is discussing the issue of the DCLG Stock Valuation Guidance with DCLG.
Clarification of paragraph 4.1.2.35 regarding the cyclical revaluation of assets.	The 2013/14 Code inserted the wording of IAS 16 which was not previously adapted. This is an application issue which needs to be read following the Code's provisions on property, plant and equipment as a whole. The Secretariat will refer the issue to LAAP. However, the Guidance Notes do include useful guidance based on IAS 16 and the Code on this issue.
▪ Provisions for doubtful debtors - authorities commonly create these on initial recognition of debtors in apparent contravention of 7.3.3.1. We suggest that clarification on this is provided in section 5.3. ▪ Soft loans - 7.1.4.7 requires the double entry to go to the FIAA. However, if the loan counts as capital expenditure under regulations, we believe the double entry should go to the CAA instead. Using the FIAA causes problems with the calculation of the CFR. ▪ Financial instrument disclosures - It would be helpful if 7.1.2.2(b) and/or 7.4.2.11 clarified whether or not the requirement to disclose fair values applies to finance lease and PFI liabilities. Most local authorities do not do so, but the Code suggests they should.	▪ Doubtful debts – the Code Guidance notes have extensive guidance on the treatment of doubtful debt. However, it is possible that the guidance notes provisions can be augmented for this issue. Refer to LAAP. ▪ There could be arguments for this entry to be either to the Financial Instruments Adjustment Account of the Capital Adjustment Account. This should not lead to problems with the Capital Financing Requirement as the Prudential Code allows appropriate adjustments to be made. ▪ Paragraph 7.1.2.2 of the Code is clear that the disclosure requirements of Chapter 7 apply to PFI liabilities.

Minor Amendments Made to the 2014/15 Code

Paragraph Amendment	**Reason for Change**
1.1.1	Harmonisation of references to true and fair view
1.1.5	As above
1.1.7	Minor clarification on the approach to adaptations
1.3.2	Harmonisation of references to true and fair view
1.6.4	Reference to complete set of financial statements agreed on 10 June 2013
2.1.1.1, 2.1.1.2, 2.1.1.3	Long paragraph - therefore split. No changes to the text
2.1.2.9	Harmonisation of references to true and fair view
3.4.2.44	Clarification of two references to remeasurements in the Comprehensive Income and Expenditure Statement – new footnote added.
3.4.2.65	Clarification that line j) only refers to Scotland and Wales following the changes to business rates in England
3.4.2.69	Reference to PFI should be service concession arrangements.
3.6.3.1	Sub heading inserted for movements
4.1.2.9	UKPS should now be UKVS
6.3.1.1	Deletion - not fully meeting the new definition of termination benefits
6.4.1.9 and 6.4.2.36	Interpretation now referring to the quadrennial valuation in accordance with decision made on 10 June 2013
6.5.6.6	Reference to firefighter in error
8.2.1.7	Comment on application of IFRIC 1 removed – in accordance with decision made on 10 June 2013