

Foreword

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

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2016.

This edition of the Code applies for accounting periods commencing on or after 1 April 2016. It supersedes the edition published on 1 April 2015 (the 2015/16 Code).

The key accounting changes in this edition of the Code include:

- a) Following the amendments in the Update to the 2015/16 Code, amendments to chapter one (Introduction), chapter three (Financial Statements), and Appendix B (Sources and Legislation) as a result of the Accounts and Audit Regulations 2015 for English authorities and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.
- b) An update of section 2.1 (Concepts) for the issue of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, particularly to reflect the description of public sector users and understandability of local authority financial statements.
- c) Amendment to section 2.10 (Fair Value Measurement) to remove the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting by Pension Funds).
- d) Following the amendments in the Update to the 2015/16 Code, amendment to section 3.1 (Narrative Report) to reflect the new requirements in the Accounts and Audit Regulations 2015 for English authorities for a narrative statement. The section has also been updated to reflect the provisions of statutory guidance issued by the Scottish Government on the Management Commentary and a new recommendation is made to cross refer in the Narrative Report to the new Expenditure and Funding Analysis (see e) below).
- e) Amendments to section 3.4 (Presentation of Financial Statements) to reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and to introduce a new Expenditure and Funding Analysis as a result of the Telling the Story review of the presentation of local authority financial statements. The presentation of financial statements section of the Code has also been amended to reflect the December 2014 changes to IAS 1

Presentation of Financial Statements under the International Accounting Standards Board (IASB) Disclosure Initiative.

- f) An update to section 3.8 (Statement Reporting Reviews of Internal Controls) for the changes to the *Delivering Good Governance in Local Government: Framework (2016)* published by CIPFA and SOLACE.
- g) An addition to the definition of a related party in section 3.9 (Related Party Disclosures) for the changes to IAS 24 *Related Party Disclosures* in relation to key management personnel as a result of the *Annual Improvements to IFRSs 2010-2012 Cycle*.
- h) Introduction in section 4.1 (Property, Plant and Equipment) of the new measurement requirements for the Highways Network Asset in section 4.11 and consequential amendments for the definitions, measurement and disclosure provisions for 2016/17.
- i) Clarification in section 4.1 of the treatment of accumulated depreciation and impairment for items of property, plant and equipment that are not a part of the Highways Network Asset.
- j) Introduction of a new section 4.11 (Highways Network Asset) for the new measurement requirements at depreciated replacement cost for the Highways Network Asset based on the methodologies in the CIPFA *Code of Practice on Transport Infrastructure Assets*.
- k) Amendments to section 6.5 (Accounting and Reporting by Pension Funds) as a result of a review of that section. These amendments include:
 - update to the format of the Fund Account and the Net Asset Statement to be consistent with the new *Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015*
 - confirmation of the new disclosure requirements for retirement benefit plan investments measured at fair value
 - recommendations for a new disclosure on investment management transaction costs
 - a new Annex setting out the application of other sections of the Code
 - other minor drafting improvements, and
 - new updated references to Scottish Government Circular 6/2015.
- l) Minor amendment to section 8.2 (Provisions, Contingent Liabilities and Contingent Assets) to reflect the introduction of Scottish Government Statutory Guidance on Accounting for Equal Pay and Severance.
- m) Amendments to chapter nine (Group Accounts) for the changes relating to IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* and to include an interpretation of IAS 27 *Separate Financial Statements* where the option to equity account for investments in subsidiaries, associates or joint ventures is withdrawn.
- n) Introduction of a new Appendix D listing the amendments to standards included in the 2016/17 Code.

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

In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In Scotland, the Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003. In Northern Ireland, the status and authority of the Code derives from Regulation (2) of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 and through the relevant accounts direction issued by the Department of the Environment (Northern Ireland).

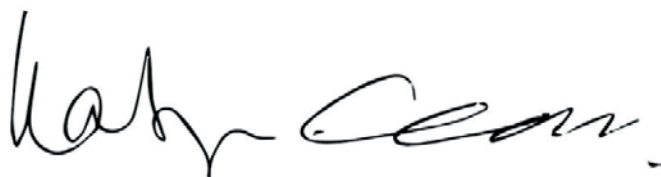
STATEMENT BY THE FINANCIAL REPORTING ADVISORY BOARD ON THE 'CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM 2016/17'

The Financial Reporting Advisory Board's role is to promote the highest possible standards in financial reporting by Government and to help to ensure that any adaptations of, or departures from, GAAP are justified and properly explained. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The 'relevant authorities' for this purpose are HM Treasury in respect of central government, the Scottish Government, the Northern Ireland Assembly and the Welsh Government in respect of central government and the health sector in their territories, the Department of Health and Monitor in respect of the health sector in England, and CIPFA/LASAAC in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.

The CIPFA/LASAAC Local Authority Accounting Code Board (the Code Board), a standing committee of CIPFA and LASAAC, is responsible for developing the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), and shares the FRAB's aim of promoting the highest possible standards in financial reporting. In developing the Code, the Code Board has followed the Memorandum of Understanding between the Relevant Authorities.

Statement

The FRAB has reviewed the Code, and concluded that it is consistent with International Financial Reporting Standards as applied by the Government Financial Reporting Manual for 2016-17, except for the differences shown in the Annex.



Kathryn Cearns
CHAIRMAN
FINANCIAL REPORTING ADVISORY BOARD

Date: 13 January 2016

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