

D1. and D2. Adaptations/Interpretations and Statutory Adjustments

CHAPTER ONE Introduction

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Proper Accounting Practices – Application of the Code

- 125 Proper accounting practices specified in paragraphs 1.2.1 to 1.2.4 set out that where statutory accounting requirements and the accounting requirements in the Code conflict the statutory accounting requirements take precedence. In the unusual event that other statutory provisions require departures from the Code, then those statutory provisions shall be followed. Regard will still need to be given, however, to the need for the Statement of Accounts/financial statements within the Annual Accounts in Scotland¹ to give a ‘true and fair’ view of the financial position, financial performance and cash flows of the authority, which may mean the inclusion of additional information in accordance with the provisions of the Code.
- 126 Statutory accounting requirements across the UK (see Appendix B for the legislative basis) also specify what is chargeable to taxation (council tax, non-domestic rates). This Code refers to this as what is chargeable to the General Fund. References to the General Fund or General Fund Balances in this Code should be understood to mean Council Fund in Wales and Police Fund for police bodies applying this Code. The relevant statutory accounting requirements are described at the end of each section of the Code which sets out the transactions required to adjust the accounting requirements under IFRS as adopted by this Code to arrive at the amounts chargeable to the General Fund. This includes the presentation of those statutory requirements. The impact of the statutory reporting requirements is presented in the Movement in Reserves Statement.
- 127 The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on European Union adopted IFRS. On the few occasions where the CIPFA/LASAAC Local Authority Accounting Code

¹ References to Statement of Accounts in this Code mean Annual Accounts or, where relevant, financial statements within the Annual Accounts for Scottish authorities following the specifications of the Local Authority Accounts (Scotland) Regulations 2014.

ED D Guidance on the Approach to Drafting the Code Provisions

Board (CIPFA/LASAAC) considers it appropriate to adapt or interpret IFRSs, the accounting treatment is based on the approach in the Memorandum of Understanding between the Relevant Authorities.

- ~~12.78~~ The Code ~~involves~~ includes adaptations and interpretations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations and interpretations as are necessary for the local government context – these have been subject to consultation in accordance with CIPFA/LASAAC's Terms of Reference and under the Memorandum of Understanding between the Relevant Authorities. ~~These will be clearly identified in each chapter or section of the Code.~~
- ~~12.9~~ An adaptation is an amendment to the requirements of international financial reporting standards.
- ~~12.10~~ An interpretation of international financial reporting standards specifies more precisely how a local authority is required to apply the requirements in a standard. An interpretation is not an amendment to the requirements of international financial reporting standards.
- ~~12.11~~ Adaptations and interpretations will be clearly identified in each chapter or section of the Code. In all other cases, the Code implements the requirements of International Financial Reporting Standards. Where users experience difficulties interpreting this Code, they shall refer back to the relevant International Financial Reporting Standard or other pronouncement for further guidance. Where adaptations and interpretations of International Financial Reporting Standards contained in the Code are in line with the guidance contained in International Public Sector Accounting Standards or other reporting standards relevant to the public sector, authorities shall refer to those standards for further guidance.
- ~~12.812~~ In the unusual event that a local authority enters into a transaction, the accounting treatment and disclosure requirements of which are not covered by the Code, but which are covered by an extant IAS, IFRS, SIC Interpretation or IFRIC Interpretation, by an IPSAS or other reporting standards relevant to the public sector, the requirements of the relevant IAS, IFRS, SIC Interpretation, IFRIC Interpretation, IPSAS or other GAAP shall be followed.

Proper Accounting Practices – Local Authority Reserves

- ~~12.13~~ In order to appropriately present the financial performance and financial position of a local authority the Code draws a distinction between usable and unusable reserves. These are discussed in more detail in the narrative description of both the Movement in Reserves Statement and the Balance Sheet. Section 3.4. of the Code requires a description of the nature and purpose of an authority's reserves to be included either in the Narrative Report or with the financial statements themselves.
- ~~12.14~~ A usable reserve represents resources which the authority might use to support

service delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements.

12.15 Unusable reserves are not available to use to support service delivery at the reporting date. These reserves arise from either:

- a) Statutory adjustments required to reconcile balances to the amounts chargeable to council tax [or rents] for the year, in order to comply with legislation, or
- b) Accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the Surplus or Deficit on the Provision of Services.

12.16 Due to the particular accounting arrangements adopted by this Code some unusable reserves represent both statutory adjustments and movements relating to accounting gains or losses. For example:

- a) The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement and credited with amounts set aside by the authority as finance these costs. However, the account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the authority. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
- b) The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. This Code requires that an authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory accounting requirements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The Pensions Reserve also includes gains or losses from the remeasurement of the net defined benefit liability (asset). Such gains or losses are recognised in other comprehensive income and expenditure.